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[See list on page V of Volume I]

Marketing and Merchandising

By

Ralph Starr Butler

Advertising Manager, United States Rubber Company

Modern Business Texts

VOLUME 5

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PREFACE

In all business, profits depend ultimately upon the ability to sell goods and services advantageously. A factory may possess every facility for maximum production at minimum cost, but unless the selling methods are carefully designed to meet the peculiar requirements of the product and of the market, the business can not be conducted at a profit. The professional man and the business house dealing chiefly in services instead of goods likewise find the basis of profit largely in the ability to get in touch with those who need what they have to offer and in satisfying that need in the most acceptable manner.

This Text deals with the marketing of manufactured goods. It is concerned chiefly with the various methods of getting goods from the manufacturer to the consumer, and with the many problems arising from the complicated trade relations of modern commerce.

The Modern Business Text in further volumes takes up special problems of selling. Two different expressions of the selling idea, advertising and salesmanship, are presented in separate Texts, while the general principles of salesmanship are exemplified in the Text on "Business Correspondence." Further-

more, it may be noted that some aspects of the marketing of raw materials receive attention in the Text on "The Stock and Produce Exchanges."

In conclusion the author desires to express his obligation to the officers of the Alexander Hamilton Institute for helpful suggestions in working out the plan of the present volume, and especially to Mr. S. Sedelmeier, Assistant Staff Secretary, for the collection of valuable material for use in the treatment of the subject.

RALPH STARR BUTLER.

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MARKETING AND MERCHANDISING

CHAPTER I

THE FIELD OF MARKETING AND MERCHANDISING

1. *Two methods of selling.*—There are only two ways in which anything can be sold—by personal salesmanship and by advertising. In business, personal salesmanship is the attempt to promote the sale of goods or services by the direct solicitation of one buying unit or one individual at a time. Advertising is the attempt to promote sales by the solicitation of more than one buying unit or more than one individual at a time. Personal salesmanship seeks to influence the individual; advertising endeavors to influence the mass. While for purposes of definition it may be well to make a sharp contrast between personal salesmanship and advertising it is not to be understood that in practical business life they are in any sense opposed. They are in fact coordinate and complementary forces.

2. *The basis of sales policies.*—Altho personal salesmanship and advertising are the only two possible methods of appealing to the market, they are

by no means the only things that must be considered by the manufacturer or dealer who has something to sell. Of more importance than any expression of the selling idea is the selling idea itself—in other words, the plan behind the selling. Back of the effective selling talk of the salesmen and back of the vigorous message of the advertisements there is a world of planning, study, and thought without which the attempt to sell in any manner could never be successful and, in fact, could not even start. Before a salesman has been hired or before an advertisement has been written, the promoter of the business must have evolved a selling policy—he must have solved a hundred difficult problems upon which depend his selection of advertising or personal salesmanship, or both, as suitable marketing tools, his selection of trade channels, and his decision to use established methods of reaching the market or to hew out some new road between distributor and consumer.

3. *The meaning of marketing and merchandising.*—Other Texts in the Modern Business Course treat of personal salesmanship and of advertising. In this Text we are concerned with the plan behind both salesmanship and advertising. Marketing means selling. Merchandising means buying and selling. In the larger sense these two terms include every activity in the field of distribution. In a narrower sense, and the sense in which they are most frequently used, they exclude the technique of salesmanship and of advertising, and include those considerations of plan and purpose upon which any successful selling policy must be founded. It is in this narrower and customary sense that the words marketing and merchandising are used in this Text. Marketing and merchandising have to do with selling policy rather than selling technique. They are concerned with strategy and planning, rather than with the actual conduct of sales operations. It is with the plans that must precede all sales operations that the Text deals. It will be noted further that our treatment will deal with the marketing and merchandising of manufactured products. The marketing of raw materials involves a different organization and a different machinery.

4. *The place of marketing in business.*—A study of the principles that govern all selling plans for manufactured goods is important to every one in business. Its value to those directly concerned with sales is obvious. To the worker in the field of production, such a study gives a new insight into the tremendous problems involved in the distribution of the world's goods, and it enables him to cooperate most effectively with those who sell the goods he makes. To the worker in the field of accounting, a study of marketing and merchandising is helpful in aiding him to place himself in intelligent contact with one of the two most important phases of business activity. To the financial man, such a study opens the door to sympathetic understanding of the

purposes and requirements of the distributing system, and its relation to the income and outgo, and hence the financial requirements of the enterprise. To all business men, regardless of their specific work, a study of marketing and merchandising is essential if they are to aspire to, or to administer effectively, executive responsibilities which demand familiarity with all the important functions which together form the great structure of modern business.

5. *Difference between marketing and merchandising.*—The word marketing is commonly used in connection with the fundamental sales problems of the manufacturer. Merchandising, on the other hand, is usually restricted in its meaning to the problems of the dealer—the man who both buys and sells. Any usage of the two terms at present is largely arbitrary, because regardless of dictionary definitions their meanings are not firmly fixed in actual business practice. The wholesale distributor, for instance, has many problems of sales policy in common with the manufacturer, but he has many also in common with the retailer. We may think of his problems as those of marketing or of merchandising, in accordance with our definitions of the two words. It is not wise to attempt to define too closely words which have only recently come into frequent business use, and which may mean tomorrow something other than what they mean today. Accordingly both marketing and merchandising are used in the title of this Text, without intent definitely to differentiate between them. The use of the words merely indicates that our present concern is not with those things that are properly considered separately under the heads of personal salesmanship and of advertising, but rather with those selling principles that provide the basis for policies on which both salesmanship and advertising must rest.

6. *Marketing factors.*—The Text deals first with the factors in marketing—that is, the channels that are available for the distribution of manufactured goods. It describes the traditional marketing channels, wholesalers, jobbers, and the older forms of retail establishments, analyzes their points of competitive strength and weakness, indicates their importance as manufacturers' outlets, and presents the many problems arising from the rapid changes that characterize the modern world of selling. It then discusses special distributing factors, such as agents, commission merchants, and brokers, and sketches the rise and significance of mail-order houses, chain stores, and cooperative buying groups both in the wholesale and the retail fields. The purpose of this part of the Text is to provide a background of information regarding available marketing channels, as a basis for the later discussion of specific problems of distribution, the solution of which must always be based on a clear and complete understanding of the existing machinery of distribution.

7. *Wholesale marketing and merchandising.*—The Text treats next of the principles of wholesale mar-

keting and merchandising. The point of view is chiefly that of the manufacturer or jobber who sells to the retail dealer. Many of the matters discussed, however, are as pertinent to the retailer as they are to the manufacturer or wholesaler; accordingly the retailer's side of every problem is presented together with that of those who supply him with goods. In this section of the Text there is a complete outline of points to be covered in the study of the product and of the market which must form the basis for any well considered selling plan. The application of such a study is then shown in the development of a carefully rounded policy of distribution. Of the various steps in the development of the sales plan there will be a full consideration of such important phases as finding the selling points, the creation of trade names, trade-marks, and packages, selling thru exclusive agencies, the private brand problem, national advertising with its effect on trade relations, price policies and price maintenance.

8. *Retail merchandising.*—Finally, a group of chapters deals with merchandising problems directly relating to the activities of those who sell to consumers. The direct-selling manufacturer receives attention in a chapter on specialty selling, while the retail merchant will find a discussion of specific problems of his business in sections and chapters on store location, on selecting and reaching the market, on buying and merchandise management, on mark-up, turnover, and profits, and on store service and store policies.

9. *Common interests of all trade factors.*—Altho the Text treats in different sections of the slightly differing problems of manufacturers, wholesalers, and retailers, it is neither possible nor advisable to draw any lines and to say, for instance, that here the manufacturer's marketing interests end, and here the retailer's begin. There are few manufacturer's marketing problems which do not affect both wholesaler and retailer; they would not be problems if the interests of distributors were not vitally involved. There are few wholesaler's merchandising problems which are not brought into existence by the influence of the manufacturer's interests on the one hand and of the retailer's on the other. And obviously no one who makes goods for the retailer to sell or who sells them to him can fail to be aware that his own business existence is dependent upon the successful operation of our great retail merchandising system. Marketing and merchandising as a field for study does not consist of specialized practices for specialized trade interests; it consists of a single body of principles, of equal and common interest to all who make or market the world's goods.

REVIEW

Wherein do personal salesmanship and advertising differ and wherein do they agree?

What is meant by sales policies?

Discuss the terms marketing and merchandising.

How may the principles which govern the sale of manufactured goods be helpful to (a) the production man, (b) the accountant, (c) the financial man, (d) business men generally?

CHAPTER II

MARKETING CHANNELS—PAST AND PRESENT

1. *Trade channels.*—Marketing channels or trade channels are the routes along which goods pass on their way from the manufacturer to the final consumer. If the route is direct and without branches and intersections, we have the manufacturer-direct-to-consumer selling method. If there are several routes leading from the production center, and if each of these direct routes branches off at some distributing point where new routes radiate out to the final markets, we have the manufacturer-retailer-consumer method, or the manufacturer-agent-consumer method, or some other similar selling system that uses only one class of middlemen. If the branch routes, each in turn, come to smaller distributing centers where new routes reach out to the consumers, we have a system involving two different kinds of middlemen—possibly the manufacturer-jobber-retailer-consumer selling method.

2. *The influence of tradition and competition.*—In an earlier day trade channels were pretty definitely established; the problem of finding the physical means to distribute goods was easily solved. Each manufacturer had but to adopt the usual trade chan-

nels in his industry. Today all this is changed. There is little respect for traditional methods as such. Every manufacturer and every distributor seeks the largest possible market at the least possible cost, and he consciously selects the trade channels and the selling methods that are best suited to his particular case, without regard to prevailing customs unless he deems them expedient or profitable. Intense competition makes it necessary for the man who has something to sell to cultivate relatively unimportant markets that he would have disdained in the old days, to regard with desire every profit that goes into the pocket of any one who stands between him and the consumer, and to submit to searching analysis every link in the chain of distribution so that he may have the maximum advantage over his competitors in price, in service, and in profits.

3. *Selling direct to consumer.*—The oldest and simplest distributing system is from manufacturer direct to consumer. For the purpose of this discussion a manufacturer is one who expends labor upon raw materials or upon already manufactured parts so as to change them into something different in form or use. A consumer is one who destroys the exchangeable value of a commodity by using it—that is, he buys goods for consumption and not to sell them again. Manufacturers and consumers were the only trade factors in these simple days when business was young. Since those times infinite complications have developed in our distributing machinery, but

today, as then, the direct contact of manufacturers and consumers is a vital fact in marketing. Thousands of manufacturers use this method of selling because no other method so well suits their purposes. Some idealists contend that direct selling is the only economic method. Altho the facts of our complicated life disprove this contention, it remains true that direct selling in many instances has sufficient advantages to require every manufacturer to consider this as one of the possible methods of distributing his goods.

4. *The canvasser's opportunity.*—Manufacturers sell to consumers by personal salesmen or by mail. If salesmen are used, they may be either canvassers or specialty salesmen. The difference is one of degree and not of method. The persistent solicitor for a "History of the World War" is justified by the same commercial necessity that dictates the employment of the highly paid commercial ambassador who sells fifty thousand dollars worth of supplies to a railroad. Manufacturers often use canvassers because the nature of the thing to be sold demands it. When aluminum cooking utensils were first introduced, probably no other method would have been so successful as house-to-house solicitation in inducing housewives to try out the new material. Selling by means of personal solicitation of the consumer is appropriate when an article is so little known that its merits must be presented personally to each prospective customer, and when dealers and advertising

can not be relied upon alone to create a demand.

When actual necessity does not require the use of canvassers, expediency sometimes suggests their use. Established retail channels may be loath to take on a new line that competes with goods already in stock; sales thru retail stores may be too small to permit large scale production; in some cases sales thru canvassers may yield a larger net return to the manufacturer than sales thru retail stores. Publishers of books and maps, and manufacturers of kitchen utensils, brushes, and a great variety of other goods have for years done an immense business thru house-to-house solicitors. At one time it might have been said that the possibilities of this type of selling were limited. Certainly there has been a popular prejudice against the methods of some canvassers which at times limits their usefulness. The recent application of modern methods of sales management, however, to this ancient system of selling has shown the great opportunities for the progressive manufacturer even in a field that for many years was considered too barren to justify serious cultivation.

5. *When the specialty salesman is used.*—A specialty salesman, going direct from the manufacturer to the consumer, usually handles a line so technical or complicated that it must be carefully explained before the consumer will buy it. An example is the cash register salesman. He has first to prove to the prospective purchaser that a cash register is necessary in the "prospect's" business, and then he may

have to prove that his machine is preferable to any other. The problem of the life insurance salesman is similar. Sometimes when the market is comparatively thin and the competition is severe, the use of specialty salesmen is continued long after the public has become perfectly familiar with the article. The typewriter business illustrates this condition.

In many instances no other selling method is possible than the direct contact with consumers by the use of salesmen. Locomotives could not be sold in a retail store or by mail. Probably life insurance must always be sold chiefly by solicitors, altho advertising can unquestionably do much to supplement the work of the salesman in this as in other fields. Speaking generally, very high-priced articles can often be sold more successfully and economically by personal solicitation than by any other method. In the case of low-priced articles the method is undoubtedly expensive, and is recommended only when the nature of the goods or competitive conditions clearly demand it or when the most skilful sales management can be relied on to reduce selling cost to a minimum and to solve the intricate problems of handling a nation-wide force of house-to-house solicitors.

6. *Direct selling by mail.*—Selling direct to the consumer by mail was one of the first developments of modern advertising. It has grown in dignity and power until it has become one of the most potent methods of marketing. It is used to sell everything from a threshing machine to a one-cent picture post-

card. No one with wisdom would attempt to lay down absolute principles to govern its application to this or to that class of commodities. And yet a few broad generalities will be found usually applicable. Normally this is not an inexpensive method of selling; if a single article is sold by mail, there must usually be a considerable gross margin of profit. If a manufacturer seeks anything approximating universal use of his product, he would hardly try to reach twenty million families by mail. It is not conceivable, for example, that a ten-cent package of breakfast food could be firmly fixed in national favor if sold exclusively to consumers by mail. On the other hand, we know that when many articles are sold thru one catalog, the cost of selling is sometimes lower than in any other method of distribution; and we know too that when the market is limited, a carefully planned, intensive direct-by-mail campaign is often the cheapest and most effective method of appeal. It is obviously dangerous to generalize about the mail-order business. As a valuable force in marketing it is too new and too vigorous to permit the setting of bounds to its possible use and growth.

7. *Importance of the retail distributor.*—When a manufacturer does not go direct to the consumer, his customary intermediary is the retailer. The term retailer is derived from two words meaning "to cut again." It was originally applied to a class of middlemen who purchased cloth by the piece or in quantities and then cut off smaller amounts for sale

to consumers. Speaking generally, the modern retailer is a distributor who buys goods to sell them again to buyers who are not themselves dealers. His usual customer is the consumer. The distribution of goods at retail is the largest business in the world. There are close to a million retail stores in the United States alone. Their activities affect all of us. As consumers, most of our earnings go to them. The jobber's business life depends on the success of his retail patrons. The manufacturer in countless cases finds his ultimate market thru retail stores; and one of his greatest problems is to cooperate with the retailer to the end that both may give better service, sell more goods, and make more profits.

The choice of the retail store as an outlet for the manufacturer, rather than direct contact with consumers, may be due to expanding business without the amount of capital necessary to send canvassers broadcast over the country. It may be due to the nature of the product or the market, which makes direct selling inexpedient. It may also be due to a lack of familiarity with direct selling practices or a distaste for the difficulties involved in that selling method. More often, however, it is due to the desire of the manufacturer to build up a more intensive distribution than can be obtained by direct selling.

8. *Types of retailers.*—The manufacturer who elects to sell thru the retailer can choose from among several types of retail establishments. The best known is the specialty store—the store that deals in

only one kind of goods or in a few more or less closely allied lines. This is the historical type of retailer. Concurrent with the development of the specialty store in this country has been that of the general store—a natural growth in a sparsely settled country where trading centers were too small to support specialty shops in all lines. The city prototype of the country general store is the department store, probably first appearing in France, but now found thruout the world. Its rapid growth, its problems, and its possibilities have been potent in breaking down old trade walls and in changing the general marketing situation. The two newest types of retail stores are chain stores and mail-order houses. From the days when the Great Atlantic & Pacific Tea Company first showed the possibilities of a nation-wide chain of stores, there has been tremendous development of the chain-store principle, until today the rapid growth of the chains is the outstanding fact in retail merchandising.

The great mail-order houses are even younger than the older of the chains. As outlets for millions of dollars worth of manufacturers' goods, distributing chiefly into rural neighborhoods, their significance in our marketing system may be measured by the controversies that have raged around them. Altho some country merchant would dispute the statement, many people believe the mail-order houses have had a beneficial effect on rural life. Their influence has been felt by manufacturers, jobbers, and retailers

alike, and they have pioneered in a field of selling that is now proving attractive and profitable to thousands of manufacturers and distributors.

9. *The jobber's place.*—When a manufacturer finds it difficult or inexpedient to attempt to reach the retail store direct, he usually adds the jobber to his chain of distribution. A jobber or wholesaler is one who buys, usually in quantities, for the purpose of selling the same goods without alteration, to other dealers. These other dealers may be either other jobbers or retailers. Of course some jobbers also manufacture and some also sell to consumers. When they do this, so far as those transactions are concerned, they are manufacturers or retailers, and not jobbers. Formerly there was a distinction between a jobber and a wholesaler, but it seldom exists today. In most lines of trade the words jobber and wholesaler are employed interchangeably.

The importance of the jobber to the manufacturer will be pointed out in a later chapter. The manufacturer whose products are bought in relatively small units by large numbers of widely scattered retailers, frequently finds it necessary to use the jobber instead of going direct to the retailer. Jobbers distribute the majority of all the merchandise in such great staple lines as hardware, groceries, dry-goods, and drugs.

Allied to the jobber, and usually performing similar functions, are a considerable group of different kinds of middlemen, known variously as agents, commission merchants, and brokers. Their activities

may be retail, but they are usually wholesalers. In some industries they occupy very strong positions, altho the modern trend toward shortening the chain of distribution has in some instances lessened their influence, as it has to varying degrees lessened the influence of other classes of wholesale distributors.

10. *The old chain of distribution.*—For many years many manufactured products passed thru a series of trade channels consisting of six stages: (1) manufacturer, (2) commission merchant, (3) jobber, (4) wholesaler, (5) retailer, (6) consumer. This traditional chain of distribution is not unknown today. In some of the textile trades, for instance, we still find these links in the chain and many more besides. This condition is not typical of modern marketing. Many circumstances have operated to obviate the former necessity for a long string of middlemen. Advertising has brought the manufacturer and consumer closer together; increased consumer demand for fresh styles has necessitated the shortening of the chain; quickened methods of transportation have made unnecessary the long graduated series of warehousemen formerly needed to give the consumer the goods when he wanted them.

11. *The modern chain.*—There is no typical chain of modern distribution. Almost every industry has its own system of middlemen, and often the different units in the same industry vary widely in their methods of reaching the market. For example, shoes are sold in large quantities thru chains of stores

owned by the manufacturer; other shoe manufacturers sell direct to retailers; while still others utilize the traditional jobber-retailer method. Despite the many methods used to carry manufactured goods to consumers, it is possible to generalize regarding channels of trade as far as certain great staple lines are concerned. We have already said that most drug store lines, groceries, dry-goods, and hardware are sold thru the jobber. Hence if we are to recognize any normal current in modern trade, it must be that which flows from the manufacturer to many jobbers, from each jobber to many retailers, and from each retailer to many consumers. It is true that thousands of manufacturers do not use this method of selling. Nevertheless the manufacturer-jobber-retailer-consumer system is still strongly intrenched; and it is in the shifting relations among the four members of this chain of distribution that most of the complicated problems of modern marketing have their origin.

12. *Selling problems and manufacturing problems.*—A generation ago manufacturing was the hardest problem in business. Today selling has taken its place. Science and standardization have gone so far that almost any manufacturing riddle can be unraveled when brains and money are concentrated upon it. This is because there are two factors in manufacturing—the machine factor and the human factor. The former, at least, can be absolutely controlled. In marketing there is no machine factor.

There is only the human element, and no one has yet devised a sure plan to harness human nature and make it act in definitely predetermined ways. It is said that ninety-five per cent of all business problems are selling problems. Whether this is so or not, no one will deny the number and difficulty of selling problems—and their most complicated phase is the relation of trade factors arising out of the characteristic indirect exchange of modern industry.

13. *Who is a middleman?*—The outstanding figure in merchandising is the middleman. When the present distributing system is criticised, it is the middleman with whom fault is usually found. Some of this fault-finding is justified; most of it is unjustified, and is founded on misunderstanding of who the middleman is and what he does. The word middleman is often incorrectly applied only to the jobber or other types of wholesaler. Actually a middleman is any one who stands between the prime producer and the consumer, and who exacts a profit for the risk he runs in addition to payment for the cost of his services. To be sure, the jobber is a middleman, but so too is the retailer. There is much loose talk about eliminating the middleman. There would be less if people understood that when talking about *the middleman* they were talking not about any one group of distributors but about every individual and every factor standing between the manufacturer and the consumer. Some middlemen may disappear and the

functions of others may be changed, but the elimination of the middleman as a class is a physical impossibility in our complicated civilization.

14. *What the middleman does.*—Middlemen are the chief agents in adjusting supply to demand. They provide a clearing house for the facts of supply and demand. The manufacturer in one part of the world, for instance, learns of the needs, desires, and demands of people in other parts of the world thru the chain of middlemen standing between him and them. Many manufacturers can not feel the pulse of the market at first hand, simply because of the very large number of people that make up the market. Middlemen do this for them. Just as the middleman gives to the manufacturer a knowledge of demand, so he gives to the consumer a knowledge of supply. Suppose that in a world without middlemen you, a consumer, wish to buy salt. Where are you to buy it? Where is it produced? Who sells it? You might learn all this about salt after careful investigation, but would you have the time to make the same inquiry about all the other things you eat and wear and use? The middleman saves you this trouble. He brings together in a retail store most of the things you need; in other words, he makes it unnecessary for you to obtain for yourself a first-hand knowledge of sources of supply.

15. *Four kinds of utility.*—Another great function of the middlemen is to create utilities. There are four kinds of utilities. *Elementary utility* is

illustrated by the qualities in wheat which enable it to support life. *Form utility* is given to wheat when it is ground into flour in order to make it palatable. Altho these two kinds of utility are essential to every one, the fact that flour, possessing both elementary and form utility, is in the miller's warehouse in Minneapolis, is of little interest to the hungry man in New Orleans. *Place utility* must be added to it. Even with the addition of place utility, however, the New Orleans man may not be able to use it. If it is brought to his place in January and he needs it in July, it is of no use to him unless it is stored by some one so it will be available to satisfy his July needs. Even possessing elementary, form, and place utility, the flour can not be used unless it also has *time utility*—the quality of being available for use when it is needed. With elementary and form utility the market organization has nothing to do, but with place and time utility it has very much to do. Middlemen produce place and time utility; they carry things from the place where they are produced to the place where they are needed, and put them at the disposal of consumers at the time when they are needed.

16. *The middleman as a producer.*—It is the fashion nowadays to decry present methods of marketing, to charge that middlemen are non-producers, and to proclaim a coming day of direct contact between all makers of goods and their ultimate consumers. The public often falsely ranks as producers only manufac-

turers and those who furnish them with raw materials. The mere handler of goods, the transporter, the warehouseman, the dealer, is put on the defensive. It is well to inquire just who is a producer. The best definition of a producer is "one who creates utility." The definition says nothing about the kind of utility created; it certainly does not refer alone to the creation of elementary and form utility. The men who grow wheat and the men who grind it into flour are not the only producers. If the creation of *time* and *place* utility is a characteristic of the producer, then we must also class as producers those who transport the flour to the place where it is needed and those who hold it there until it is needed. A producer is one who creates *any* kind of utility. In his "Elements of Economics" Professor Richard T. Ely says:

> It has seemed to some, even among economists of an earlier time, that the farmer is more truly a producer than the manufacturer, and the manufacturer than the merchant; but careful thought discloses the fallacy of such a view. All industrial classes alike produce one or more of the four sorts of utility, and they do so by changing the relations of things in time or space. The farmer changes the positions of grains of corn by dropping them into the earth. Then he removes the weeds and throws earth about the rising stalks. Thus man's arts in changing the relations and positions of things, aided by Nature's materials and forces, result in more corn for human consumption. The manufacturer in the same way changes the position of pieces of matter, and, aided by natural forces within the object of production, he causes the matter to assume a form that fits it, or better fits it, for human needs. So, too, the merchant changes the places of things from where they are in one place until a change of external circumstances gives them greater utility. He is producing utilities as truly as the farmer or the manufacturer.

17. *Why middlemen are necessary.*—It is not possible to defend all middlemen. There are some industries in which it is becoming possible and economical to do without middlemen entirely. In other industries a smaller number of middlemen are being used. This does not mean that the middleman is disappearing from commerce. To admit that a given type of middleman is unjustified and should be eliminated, is very far from saying that all middlemen are unneeded and must go. Our present purpose is merely to show that the *middleman* is necessary to industry, rather than to defend any particular representative of the class. The middleman exists not because he consciously set out to make a place for himself, nor because consumers have blindly permitted him to come between them and the manufacturers whose goods they buy. He exists because he has been forced into existence, on the one hand, by the necessities of specialized and large scale industry and, on the other hand, by the necessities of consumers equally specialized in their activities and constantly demanding more and more in the way of service which the distant manufacturer must usually rely upon the middleman to give.

This is an age of indirect exchange of goods and

services. Our pioneer ancestors who grew on their farms all they needed to feed and clothe their families, are gone. We are all specialists in one narrow groove in industry, and we have no time to hunt out for ourselves all the other specialists whose goods we need. Whole communities are specialists. Pittsburgh makes iron and steel products; Danbury makes hats; Troy makes collars and shirts; Gloversville makes gloves; the Dakotas grow wheat; the South grows cotton; many states grow apples. A community can not exchange its specialized product directly for the specialized products of almost countless communities. Some clearing-house arrangement is necessary to market the products of one community and to bring to it the products of others. This is the function of the middleman.

The middleman has grown out of the conditions that characterize our civilization. Some middlemen will go, and others will change their functions; but as a class middlemen will continue to exist and to justify their existence as long as we continue to operate under the form of society and of industry which brought them into being.

REVIEW

State the various ways in which goods may be marketed.

What changes have occurred in the marketing of goods by manufacturers?

What advantages does each of the following methods of selling direct to consumers offer to manufacturers: (a) canvassers, (b) specialty salesmen, (c) by mail?

What is the function of the modern retailer?

Discuss types of retailers; of jobbers.

Compare the old and new chains of distribution.

How would you define a middleman and what function does he perform? Is he necessary in industry? Will he be likely to survive?

CHAPTER III

THE LOCAL RETAILER

1. *Meaning of local retailer.*—The phrase local retailer is used here, perhaps somewhat arbitrarily, to refer to the country general store, the specialty store, and the department store. It does not include chain stores or mail-order houses. The chain store is local in a sense, but its central control puts it in a separate classification so far as a study of marketing and merchandising is concerned. Despite the large business of the chains and the influence of the mail-order houses in certain fields, the great majority of consumer goods continue to pass over the counters of local retailers. The local retailer serves as the greatest source of supply for consumers and the greatest outlet for manufacturers and jobbers.

2. *Development of specialty stores.*—The first retail stores were probably specialty stores; each store dealt in only one kind of goods or in a few closely allied lines. These stores grew up in the towns. In medieval times there was little country life as we know it now; the population of most countries was congregated in settlements around castles, because the unsettled conditions of the times made isolated residences unsafe. The towns that were of sufficient

size harbored enough little specialty shops to satisfy most of the demands of the inhabitants. The smaller places that could not support a group of specialty shops in all lines, depended on itinerant merchants for what their own stores could not supply.

3. *Why the general store appeared.*—With the increased safety of more settled times, the country outside of the towns became more thickly settled. For each group of country dwellers there was some center, a cross-roads, perhaps, or a hamlet. Here there might be a few specialty stores, but ordinarily the population tributary to the small trading center was not large enough to support specialty shops in all lines. Itinerant merchants declined in importance, and there was need for some new method for satisfying the wants of country communities.

Out of this need developed the country general store. A country community which can not support a separate grocer, a separate dry-goods merchant, a separate hardware dealer, and so on, can provide a living for one dealer handling all these lines and many others besides. We do not know when the general store first appeared, but in Europe it certainly was a much later development than the small one-line store. In the United States the specialty store and the general store have grown up together. In earliest colonial times we find them both, and both have continued in their respective fields to the present time.

4. *Rise of the department store.*—A still later development is the department store. It is a country

general store on a large scale. Its field is the city instead of the country, because only in the city is sufficient trade found to support it. The department store appeared first in France, altho the United States and other countries were quick to adopt it. Today it is found almost everywhere in the civilized world, and its rapid growth, its problems, and its possibilities have been potent in breaking down old trade walls and in altering traditional methods of marketing and merchandising.

5. *Importance of general stores.*—There are more than 200,000 country general stores in the United States that are rated at $1,000 or over. They are the chief sources of supply for a large part—possibly one-third—of our total population. Despite the inroads on their trade made by the mail-order houses, despite the appeal of city stores, and despite the growing importance of county shopping centers, the country general stores will continue to do a tremendous volume of retail trade and they will continue to be of first importance to the manufacturer and jobber who seek their markets in farm communities.

6. *Competitive strength of general stores.*—The chief strength of the country general store lies in its location. Our buying habits demand a nearby source of many of the things that we eat and wear and use. Just as the corner grocery is a necessity to the city dweller, so the general store is a necessity to the farmer. He may buy many things by mail or in the city, but for his day-by-day needs he depends on

the local dealer from whom at any time he can buy in minimum quantities with maximum convenience. It is not likely that any change in conditions of country life will seriously impair this factor of strength in the competitive position of the general store.

The second competitive advantage of the general store is derived from its intimate relations with its customers. Knowing the needs of surrounding farmers, it can adapt its stock to local requirements in a manner impossible to the more distant establishment. It can grant credit on a basis of sure knowledge of financial responsibility with a minimum risk of loss. In some communities, particularly in the South, the general storekeeper acts as a banker, advancing goods during the growing season, and taking from the farmer in exchange a lien upon the ungrown crop. The country merchant has an unequaled opportunity to build and hold business on the basis of personal relationship; by right dealing and wise merchandising he can develop a personal following that will insure for him a definite and sure trade.

7. *Weakness of the general store.*—The weaknesses of the country general store are partly inherent and partly the result of inefficient merchandising. Among the inherent difficulties is the inability to carry large assortments of any one kind of goods. The country store can readily supply conveniences, but it offers little opportunity for choice or selection in style goods or other shopping lines. An-

other inherent weakness is the fact that the store is in the country. The city has an appeal to the imagination that draws country trade, and would draw it even if the general store offered the same assortments and the same prices and service as the city store. These inherent disadvantages, however, have been and are being overcome by good merchandising. The properly conducted country store is finding it perfectly possible to do a profitable business, regardless of the increasing competition it has to meet.

8. *Changes in rural merchandising.*—There has been a marked change in country storekeeping during the last quarter of a century. While the typical country store a generation ago was characterized by unattractive exterior, less attractive interior, oddly assorted stock, sliding scale of prices, and the open cracker barrel and checker-playing proprietor made notorious by humorists, such a store is the exception today. Among the important influences that of late years have made for better country stores are good roads, the automobile, telephone, rural free mail delivery, parcel post, and moving pictures.

Good roads and automobiles have widened the shopping radius of the farmer. Formerly dependent on the nearest store, he has been enabled by quick and cheap transportation to go twenty or thirty miles away if the nearby dealer could not give him the goods, prices, or service he wants. The country dealer, who, because the farmers had to trade with

him whether they wanted to or not, took no pains to conduct a strongly competitive establishment, has found himself in direct competition with every other store in the county and its vicinity. Dealers unable to compete under these new conditions have gone to the wall; those who have survived owe their success not so much to the proximity of their customers as to their ability to give their customers what they want. This movement has been helped by the telephone and rural free mail delivery, which have had their part in widening the farmer's buying radius and in permitting the local dealer to build a telephone-order and mail-order business of his own. The moving picture has taught the country dweller to have new wants. True, this has helped the mail-order house and the city store, but it has also helped the local dealer who was alert to find new ways of serving his trade and new goods to catch their fancy.

9. *Problems of the general store.*—The country dealer usually thinks his chief problem is to meet mail-order and city prices. Price is a problem, but it is not so important a problem as suitable stocks and satisfactory service. He can counteract his relative weakness as a buying unit only by keeping his gross profit well below that of his competitors. Chief among the factors influencing selling expense is turnover, and turnover is largely a matter of suitable stocks. Instead of buying much of one style or kind, he is buying more styles and kinds but fewer units of each. He is depending less on the periodical vis-

its of salesmen and is more and more filling in his stock by frequent mail-orders to jobbers or manufacturers. He is in many cases learning to eliminate bulky, slow-selling items, and is concentrating on the kinds of goods that sell rapidly and permit quick turnover. He is increasing the radius of his store's appeal, thereby developing a volume of business that permits the handling of large and varied stocks and at the same time a rapidity of turnover that he must get if his prices are to be satisfactory to his trade. By better stock selection, better advertising, personal cultivation of the possible buyers in a wide area of territory, and by learning and applying the growing body of principles in the art of merchandising, the country general storekeeper is solving his problems, and is intrenching himself in a competitive position from which no competition now existing or to be foreseen is likely to dislodge him.

10. *The general store as a manufacturers' outlet.*— As an outlet for merchandise the country general store must be considered by manufacturers and jobbers. Its traditional importance in the rural field, as well as its increased power as a result of its changed status, entitle it to a sympathetic hearing. In past years no manufacturer seeking a national distribution of his products could afford to ignore the country store. Whether he were selling crackers or clothing, he could not reach the country trade except thru the country store.

The manufacturer of crackers still believes, and

rightly, that he must have universal distribution if he is to get maximum sales, and that his product must be for sale at the cross-roads as well as in the larger towns. The manufacturer of clothing, of late years, has sometimes felt that the greater fluidity of country trade would permit him to get all the business he had a right to expect if he sought chiefly to develop outlets in the county-seats and other shopping centers of rural communities. In other words, there is a tendency to regard the country general store as a necessary distributor of articles of relatively small value, but as less necessary in the distribution of articles representing a sufficient outlay to justify the farmer in coming to town where he can compare values and find wider assortments from which to choose.

To a certain degree, a manufacturer may wisely adopt this changed point of view regarding the country general store. It is true that the farmer can and does go farther to buy goods than he went before the days of the automobile. It is also true that the better stores in the larger rural shopping centers are becoming increasingly important as distributors for wide agricultural areas. The danger in this new point of view is that some manufacturer, concentrating on county-seats or other centers of rural trade, will be distanced by a competitor who goes to the country general stores and, by working closely with them, enables them to get and hold the business of surrounding consumers. It is not safe to ignore any established and prosperous class of distributors. In

the individual case, a county-seat representation may provide adequate distribution of a manufacturer's line, but, speaking generally, the manufacturer who relies exclusively on such representation will be greatly limiting his opportunities.

11. *Importance of specialty stores.*—At least of equal importance with the country general store in the group of local retailers is the specialty store—the establishment in town or city handling only one class or a few allied classes of commodities. They are the chief sources of supply for our urban population, which now exceeds the total rural population. Specialty stores are found in very large numbers. For example, excluding chain stores, there are approximately 170,000 separately owned grocery stores, 60,000 meat markets, 40,000 drug stores, 40,000 tobacco shops, 30,000 dry-goods stores, and thousands of others dealing in shoes, clothing, jewelry, hardware, furniture, and all the other great staples of commerce. With the rapid growth of urban population in the United States, specialty stores are assuming a constantly increasing importance as outlets for manufactured goods.

12. *Why the specialty store exists.*—The specialty store exists because it is a convenience, and this is its chief economic justification and its chief source of competitive strength. Just as the country dweller, who must buy most of the things he needs in small quantities and to serve a day-to-day need, requires a nearby source of supply, so the city dweller demands the convenience of the neighborhood grocer or butcher or druggist to satisfy his frequent need of the necessities of every-day life. Not all specialty stores exist primarily for this reason, but most of them do.

13. *Complete stocks.*—In competing with the country general store—and this competition is increasing because of the ease with which the farmer can reach the larger towns with their many exclusive shops—the specialty store offers the great advantage of complete stocks in one line. To an extent, it has the same advantage in competing with department stores, altho many department stores now offer greater assortments than any except the largest of the specialty shops with which they are in competition.

14. *Service and its cost.*—Aside from convenience of location, the chief competitive advantages of the city specialty store are (1) the opportunity for a more personal service than is usually expected from a department store, and (2) relatively low operating costs. The opportunity for personal service is obvious; a relatively small store dominated by the personality of an efficient owner is more likely to build up a loyal clientele than a large impersonal establishment where customers' only contact is with hired salespeople. The reason for low operating costs is not so obvious. The department store competes partly on the basis of low prices, but these low prices are not the result of operating expenses lower than

those of competing specialty stores. The down-town specialty store may operate on as expensive a basis as the department store next door, but the specialty store operating outside of the high rent district usually has to add a smaller mark-up for expenses of doing business than the department store. This advantage is partly due to relatively low rents, limited delivery radius, and to many savings resulting from the personal supervision of the owner over all details of operation.

15. *Problems of specialty stores.*—Despite its great importance as a distributor and despite the necessity and assurance of its continued existence and prosperity, the separately owned specialty store is facing many serious problems. The most difficult to solve is the increasing competition of chain stores. For the present this competition exists chiefly in the grocery, drug, and tobacco industries, altho there are many chains in other fields, and the chain principle of operation is constantly being applied to new lines of business. The problems involved in this type of competition are considered in the chapter on "The Chain Store."

16. *Limitations.*—In competition with chain stores and department stores, the neighborhood specialty store is handicapped by a limited trade area, limited advertising possibilities, and inherent buying weakness.

In a small town, the specialty store can draw trade from the entire town as well as from the surrounding

country; its possible trade area is just as wide as that of the local department store or general store. The same is true of the down-town specialty store in a city. The neighborhood specialty store in the city can expect only a limited volume of business, simply because it is a specialty store.

Even in the neighborhood it serves, it has difficulty in bringing its advantages to the attention of all possible customers, because of its limited advertising possibilities. The neighborhood store can use direct-by-mail advertising, and it may utilize the local moving-picture theaters, but it is usually shut off from the great selling power of the city newspapers.

17. *Buying weakness.*—All this means limited trade, and limited volume of trade contributes to buying weakness. The greatest problem of the specialty store, whether in town or city, is to buy goods as cheaply as the department store, the chain store, or the mail-order house. To a certain extent this competitive weakness is inherent, altho many retailers are finding ways to overcome it in part at least. One type of attempt to combat it is discussed in the chapter on "Cooperative Buying Groups."

18. *Selling thru the specialty store.*—The importance of specialty stores as outlets for manufactured goods needs no emphasis. Occasionally a manufacturer may elect to sell exclusively to chain stores or to department stores or to mail-order houses. The number that do this is relatively small. Most manufacturers of grocery specialties, drug store items,

hardware, dry-goods, shoes, and hundreds of other articles of every-day use must find their chief distribution thru specialty stores. It is to the manufacturer's advantage to build up these stores in every possible way. Usually they need and welcome the assistance of manufacturers and jobbers. Advertising aids, improved systems of store accounting, instruction for salespeople, suggestions for better store management—these and many other kinds of assistance to specialty storekeepers can be provided by wholesale sources of supply with advantage to themselves as well as to the retailers.

19. *Department stores and their influence.*—It is impossible to say how many department stores there are in the United States, because it is not possible to define exactly what a department store is. The line between the department store and the country general store is indistinct. Theoretically in a real department store each kind of goods should be sold in a separate department. Actually the distinction between department stores and general stores is a matter of relative size and volume of sales. Department stores are found in every city and every large town. They serve millions of customers, and distribute immense quantities of goods. More than one department store has yearly sales of fifty million dollars or more. As distributors of manufactured products they must be considered by every manufacturer who seeks maximum sales for his goods.

20. *Operating economies of department stores.*—

The competitive advantages of the department store are chiefly the result of large size and favorable location. It has been said that the department store can effect unusual economies in operation. It can, theoretically. The overhead expense for two departments or stores under a common roof should be less than for the same two stores under separate roofs and separate ownership. An expenditure for advertising that draws people into the store to inspect the special offers in one department may result in sales in many departments. A central delivery service for many departments should reduce delivery expenses by providing for the maximum use of all delivery equipment. The necessary routine in selling operations that is required by large-scale operation and the enforced standardization of procedure should and does permit the use of lower-salaried assistants than is sometimes possible in a specialty store with its more personal service.

21. *High cost of doing business.*—With all these and many more theoretical and actual operating savings, the department store ought to show lower expenses of doing business than the specialty store. Normally it does not show them. Department store expenses of doing business average higher than the expenses of specialty stores. This is due partly to keen competition. The department stores in any city are usually close together; to a large extent they appeal to the same classes of people; none has a localized trade. One store adds an expensive item of

service, and others promptly follow suit. One moves to a newer, more favorable, and more expensive locality, and the other stores follow its lead. The department store chooses the most central district with the highest land values, in the first place, and the fact that increased trade is drawn to that district raises still more the value of the ground occupied by the store. These and many other factors operate to increase the department store cost of doing business and counteract the many economies made possible by its peculiar form of organization.

22. *The appeal of convenience.*—Despite relatively high operating expenses, the department store offers strong competitive appeals. Its size, situation, and the variety of its lines, make it a convenient place to trade. Central location, the possibility of satisfying many kinds of wants under one roof, concentrated credit, systematic and extensive deliveries—these are all strong drawing cards. It often draws trade, too, by offering to the public other conveniences not possible to the smaller store—rest rooms, restaurants, concert halls, and other frequently expensive forms of service that are appreciated by shoppers.

23. *Advantages resulting from size.*—The mere size of the department store is a strong factor of competitive strength. It is an outstanding establishment in the community; its name is a household word, and no shopper can escape its appeal. Because of its size it can afford to employ instructors

to increase the efficiency and welfare of the sales force. Its large variety of goods and large sales permit the use of dominating advertising space in the newspapers. It can make an investment in facilities for handling its customers' credit on a safe and satisfactory basis. These facilities are not always available to the smaller store that feels itself forced at times to grant credit to hold trade, regardless of the right of the customer to a charge account. Because its sales are large, the department store is able, and is forced, to employ men of proved ability to manage its complicated activities. Its big salaries attract big men. It is not true that all department stores are managed more ably than all specialty stores. It is true, tho, that when a specialty store finds itself unable to compete successfully with department stores, the difficulty is due more often to differences in efficiency of management than to any inherent advantages of the larger establishments.

24. *Buying strength.*—The department store has great buying strength. Such stores frequently set the pace for specialty stores; what the department store carries, the specialty store has to carry. Its influence as a distributor and its size place it in a strategic position in its relations to sources of supply. Its buying strength is partly derived from its large purchases of each of the kinds of things it carried. This is not a universal advantage, because the large shoe store, for example, may buy and sell more shoes than the shoe department of the competing depart-

ment store. The department store's advantage arises from the fact that the store is a much sought outlet for manufactured goods; its support is often essential to the introduction of new goods; manufacturers are in keen competition for its services, and, to obtain its cooperation, they often grant it buying advantages that are not granted even to large specialty stores. Many department stores will not buy thru jobbers; they demand the jobber's discount for themselves. The elaborate buying organization of a great department store is in a position to pick up bargains, odd lots, and jobs in all the markets of the world. Because it can usually command large amounts of ready cash, the department store receives the first offer of bargains from those who must sacrifice goods in order to raise money.

25. *Extent of price appeal.*—These buying advantages result in the possibility of low prices, lower often than those of specialty stores despite the greater expense of doing business in the department store. From this it should not be understood that the department store appeal is exclusively a price appeal. Formerly the price appeal was much used, and today many department stores continue to operate on that basis. Goods in one department are at times offered at a loss in order to create the impression of equally low prices thruout the store. The present tendency is to soft-pedal the price appeal. The high cost of operating is making it difficult for department stores, despite their buying strength, to offer consistently

low prices. Quality and service are the key-notes today, and it is on this basis that the better grade of stores appeal, altho the period of declining commodity prices may bring some return of the general price appeals that were common before the Great War.

26. *Competitive weakness of department stores.*—As there are inherent elements of strength in the department store, so there are also natural elements of weakness. Some of them have been considered. Intense competition and attempts to outdo competitors in forms of expensive service are largely the cause of high operating costs. Centralization of control, so that the management is far removed from customers, is a very real element of weakness; a carefully planned sales operation may be rendered ineffective by the lack of tact or knowledge of a careless clerk. Waste and inefficiency are hard to eradicate in a large machine-like organization. The path for the department store is by no means free from obstacles. The business involves large risks and it also involves large opportunity for profits. Its successful operation requires the sort of rare executive ability that is necessary to the successful conduct of any kind of large-scale industry.

27. *The price of department store cooperation.*—The manufacturer who wishes to sell to department stores must be prepared to pay the price of their support. He must usually offer a special discount. He must often agree to carry stock for the department store, while granting the store the minimum

price for maximum quantity purchases. Advertising allowances are sometimes demanded. At times the department store insists that the manufacturer shall instal his own salespeople or demonstrators to sell goods for which the store does not pay until they are sold. Occasionally a department store is averse to handling nationally advertised lines, and insists that its own name or trade-mark shall appear exclusively on the things it sells. Manufacturers at times find their regular patterns or styles are not wanted by department stores, and, to get the support of a particular store, they must produce special goods for that one establishment. Some department stores will not handle goods of a certain type unless they have the exclusive representation in their community, despite the legitimate desire of the manufacturer for general distribution.

All these obstacles to dealing thru department stores, and many others, have not hindered the development of department store trade. Manufacturers may object to the terms offered by the store, but many of them believe the department store so important in its influence on consumers and on smaller dealers alike, that they are willing to pay the price of department store cooperation. Altho the customary basis of sales to department stores is well understood by all factors in trade, and altho there are numberless manufacturers who deal successfully both with department stores and specialty shops, the manufacturer who seeks both of these outlets must often

balance, on the one hand, the possible ill-will of smaller dealers who may learn of the unusual favors he grants the department stores, and, on the other, the very real influence of the department store in creating local demand for a commodity. Not all dealings with department stores are on special terms. Many articles are bought at regular prices and on regular terms. Typical relations with a department store, however, are those based on special concessions dictated by the size and buying power of the establishment.

REVIEW

Trace the development of (a) the specialty store, (b) the general store, (c) the department store.

Give some of the elements of strength and weakness that are found in the general store.

Of what importance is the general store to the manufacturer?

Discuss specialty stores from the standpoint of (a) competition, (b) service, (c) advertising, (d) buying.

How can a manufacturer help the specialty store to build up business?

What advantages has the department store over other types of stores?

What points of weakness does it show?

What concessions does a manufacturer have to make to secure department store cooperation?

CHAPTER IV

THE CHAIN STORE

1. *The chain's place in merchandising.*—A chain store is one of a group of stores operating under single ownership or management. The individual members of the group may all be in one locality or they may be scattered over the entire country. The development of the chain store method of merchandising has had pronounced influence on all factors in merchandising. The independent retailer has found in the chain store a competitor of great strength and remarkable vitality. The jobber sees in the chain an organization that deprives him of much of his best business and that assumes for itself jobbing functions and jobbing profits. The manufacturer has discovered that traditional methods of selling are of little avail if he seeks an outlet thru chain stores, and he finds in the chain's ability to develop and control its own sources of supply a limitation to the market for his own goods. The consumer by reacting favorably to the chain store appeal has indicated his belief that the movement satisfies a social need and that it is a legitimate factor in competitive merchandising.

2. *Extent of chain store operations.*—Altho the

first chain store system, The Great Atlantic & Pacific Tea Company, was established as long ago as 1859, most of the better known chains began operations within a few years preceding and following the opening of the present century. Little was heard of the chains in the early days of their activity. They operated quietly and efficiently with ever increasing patronage until in comparatively recent years the business world suddenly awoke to their tremendous significance and great strength in competitive retailing. The Great Atlantic & Pacific Tea Company is today the largest as well as the oldest of the chains. In 1922 it reported the astonishing total of 5,232 stores, doing a business in 1921 of $235,302,877. No other chain system approaches this leader in size, but there are several owning more than 1,000 stores and having annual sales in excess of $50,000,000. In 1921 the aggregate sales of eighteen well-known chains exceeded one billion dollars. Approximately ten per cent of all the grocery trade of the United States is estimated to be in the hands of the chain stores, and in certain large cities the chains control fifty per cent or more of the total grocery business. The chain store business is big business. Its influences are far-reaching, and in any study of marketing and merchandising it is necessary to give consideration to its place in competition and to its relations to other factors in trade.

3. *Fields in which chains are found.*—The chain principle has been applied chiefly to grocery stores,

drug stores, tobacco stores, candy, shoes, hats, men's clothing, variety stores (that deal usually in five-and ten-cent goods), restaurants, and small-town department stores. It has been applied to a less degree to hardware, creamery products, jewelry, musical instruments, and other staple products. It is not safe to say that any field is not adapted to the application of the chain store principle. Theoretically chain stores should be more successful in some lines of business than in others, but the constant invasion of new fields by chains proves that the difference in opportunity is a difference of degree only and that the limit of chain store possibilities has by no means yet been reached.

4. *Kinds of chains.*—There are two traditional kinds of chains—*retail corporations* owning many stores, which are merchandisers primarily and manufacturers incidentally, if they manufacture at all; and *manufacturers' chains,* operated by manufacturers primarily to serve as outlets for the products of their own factories. To be classed as semi-chains are *retail buying associations or combines,* groups of stores operating to a large extent independently but pooling certain interests or surrendering certain activities to central control in order to get the buying and other advantages of the chains. The Rexall drug stores are typical of this class. Finally there are *consumers' cooperative* retail chains, little known in America but largely developed in Great Britain and in Europe. There are a few other intermediate types of chains

conforming more or less closely to one or another of these four main classes.

5. *Financial strength.*—The competitive strength of the chain store is due almost without exception to the one element of *size.* Generally speaking, the chains are strong because they are large merchandising units, and because they have perforce developed a degree of organization and standardization which is necessary in any large-scale business. First of all, they have large financial resources. Their capital stock is often quoted on stock exchanges. Some of the great financial houses are closely associated with them, and they have ready access to established channels for borrowing money or floating new stock issues.

6. *Advantages of location.*—The chain stores have reduced the selecting of sites to a science. With long experience in picking the best store locations, their real estate subsidiaries ascertain exactly the sites that will prove most profitable, and then frequently acquire them in a manner to reduce the rental charge to a minimum. One of the tobacco chains frequently buys an entire building, utilizes only a small corner of it, leases the rest, and makes enough on the transaction to return adequate interest on the investment, pay the rent of the store, and yield a handsome profit besides. In selecting sites for stores, the chains have applied the principle of scientific management; they have substituted facts and figures for guesses as to the number of customers that will be attracted and

the probable profits that will be derived from any particular location.

7. *Opportunities to standardize.*—The opportunity to standardize in many ways is one of the greatest sources of strength in chain stores. When a large number of units are doing the same thing, and when sufficient capital is available, it is possible to devote time and money to finding the one best way for each of the units to do that thing. For example, the chain can hire experts to standardize the appearance of the interior and exterior of the store so that the appeal will be strongest and most pleasing to prospective customers and so that the store functions can be performed with a minimum of labor and expense and with the maximum of convenience to customers. The chain can also experiment with its many stores until it has found, for any given type of location, the precise amount of space needed for stock, for display, for clerks, and for customers, and it can then standardize on store arrangement so that no unnecessary dollar will be spent for rent.

Service also can be standardized. Selling service is an example. Somewhere in a great chain organization is a man who specializes in retail salesmanship, who has studied the problem until he has reduced it to an art. This art he teaches to his salespeople. Salesmanship is standardized for the benefit of customers. The principles of goods display can be standardized, with an eye to the pleasure and convenience of the customer just as much as to reducing expenses and increasing profits.

8. *Dangers of standardization.*—A chain store official once said: "The world has been trying to get things done by selecting men and trusting them unaided to do its work. Instead, some one in authority should first find the thing to be done, then find the best way to do it, and finally teach the men to do it that way." This is the essence of scientific management, which is another name for standardization. It is a factor of chain store strength, but it also has elements of weakness. The danger is machine-like operation. With the concentration of initiative at headquarters, there is danger that initiative will disappear from the stores—the danger of leveling personality and retarding individual development. Many chains combat this tendency by giving managers a share in profits, by systematic encouragement of constructive suggestions, by providing always that important positions shall be filled by promotion from within the organization, and by other plans for overcoming the dangers of necessarily strict system and routine. In one notably successful chain the head of the organization is an actual partner of each store manager; the individual managers are given a large degree of autonomy, while at the same time the organization, with its large resources, employs the most skilled men it can find to operate as a technical staff to help the local managers in eliminating waste and inefficiency.

9. *Salaries and efficiency.*—The chain store system, like the department store, has one advantage in organization that is closed to the smaller store. It can afford to pay large salaries to employ trained men to study, plan, and direct the work all the way down the line. Salaries are not the only measure of ability. The supreme ability of an executive at the home office may not be reflected in the activities of his subordinates in distant chains. Nevertheless the chains, theoretically at least, have an advantage over some of their smaller competitors to the extent that high salaries can command men more skilled in competitive strategy than can smaller salaries or small profits.

10. *Chain store advertising.*—The chains have an advantage in advertising. The mere number of the stores is a continual advertisement. It suggests success and business on a large scale—two things that always attract trade. The familiar store front, carefully standardized with a view to its effect on the public, is an effective advertisement. The individual retail store is often a weak advertiser. The manager of a local chain store may know just as little of advertising as his competitor in an individually owned store across the street, but there is a man at headquarters who knows much about it, and he can aid the local manager with his advertisements or prepare them for him. A small independent store can not advertise economically in the papers of a large city. A chain of stores with many branches in a city can

use large space in the newspapers. If a chain is widely spread over the country, it may even advertise on a national scale in mediums of general circulation. Not all chains are advertisers, but they have an advertising advantage if they wish to use it.

11. *Accounting as an asset.*—Continual, automatic stock-taking and careful accounting are fundamental in most chain systems. Control of every detail of the business by accurate and simple records is the lifeblood of chain organization. A falling off in one store today must be accounted for, and if the falling off continues, immediate steps are taken to remedy the situation. The accounting system shows quickly what lines are profitable and what are not, it directs attention unerringly to sources of waste, it gives accurate costs of doing business, and it reveals many other things vital to retail success. There is no reason why an independent store can not have an adequate accounting system, but often it does not. The chain store can not exist without it.

12. *Buying strength.*—Buying strength is characteristic of the chain store, just as it is of any other large-scale merchandising unit. Two stores by pooling their purchases can buy in greater quantities and often get lower unit prices than one. Multiply two by two hundred or a thousand, and the buying advantage of the chains becomes obvious. The purchase of individual items by one of the five-and-ten-cent store chains, for instance, is enormous. Single purchases from one manufacturer not infrequently

are in car-load or train-load lots. It demands and gets rock-bottom prices on its huge purchases. In addition to the maximum quantity discounts, it may get extra price considerations because of the desire of a manufacturer for chain store distribution. Its trade may be considered so desirable that a manufacturer will grant a cash discount while permitting payment to be made on regular dating. The chain almost always buys direct from manufacturers. If it warehouses its purchases and refills its stores' stocks from its own central surplus, it is legitimately entitled to all the jobber's discounts. Some chains, however, receive from the manufacturer the regular discounts given to service wholesalers, while relying on the manufacturer to keep the stocks of the local stores filled from his own warehouses. Many of the chains manufacture many of the goods they sell. If a chain credits itself with a jobbing or manufacturing profit, selling to its stores at market rates, it can often show a satisfactory profit even if its stores were to operate on a no-profit basis.

13. *Buying organization.*—A chain store system, doing business on a large scale, can afford to maintain an elaborate and expensive buying organization. It can have buyers in all the important markets to pick up bargains and to seek out profitable novelties. It can command sources of supply, and can get certain goods when the independents find it impossible to get them. Its large cash resources attract manufacturers and jobbers who must turn goods quickly

into money, and who are willing to sacrifice profits to make sales. Its strength in buying is approached only by that of the great mail-order houses and largest department stores. This is a source of competitive strength that the independent store can seldom match.

14. *The source of low selling prices.*—The buying strength of the chains contributes to the possibility of offering low prices to consumers. If goods are bought cheaply, they can be sold cheaply. The chains do not always pass on their buying savings to the public; some of these savings they legitimately pocket as extra profit, altho the opportunity always exists to use price as a competitive advantage. Selling price, however, does not depend wholly on purchase price. It is equally dependent on the expense of doing business and on the amount of net profit on individual sales.

15. *Chain store expenses.*—Most of the chains operate on a very low expense basis. In 1915 an investigation showed that the expenses of doing business of independent grocery stores averaged 16.5 per cent of total sales, while in the same year the chain groceries reported an average expense of only 10 per cent. In the period of high prices and high costs following the Great War, chain store expenses climbed upward in common with all other expenses, but they remained even then appreciably under the expenses of independent stores. There are many reasons for the low expenses of chain store organizations. The chain store carries a minimum of stock, relying on a central

warehouse for frequent renewal of its supplies. Storing the surplus stock for several stores in one warehouse is cheaper than carrying large stocks in each of the stores. Many of the chains sell only for cash, eliminating the expense and risk of loss of credit accounts. Free delivery is infrequent with chain stores. Some of the chains have instituted self-service features which reduces the number of clerks needed to handle the trade. Standardization of selling procedure reduces waste motion and time, minimizes the necessity of close supervision, sometimes permits the employment of relatively low-salaried store assistants, and in other ways keeps down expenses without interfering with volume of sales. Not all chains operate on a lower expense basis than their independent competitors, but many of them do, and, when there is a difference in favor of the chain, this is an advantage it can pass on to the public in the form of lower prices.

16. *Low profits and quick turnovers.*—The final factor in selling price is net profit. An almost universal characteristic of chain stores is a recognition of the A B C of good retailing—low profits on each sale and quick turnover of stock. If an entire stock can be turned over ten times a year, theoretically the store will be satisfied with a net profit on each sale only one-tenth as large as it would have to get if the stock could be turned only once a year. A stock turnover in the grocery chains of twelve times a year is not uncommon, and stock turnovers

as high as twenty-five or more times a year are not unknown. It is the exceptional independent store that can approximate these figures. Some of the tobacco and candy chains turn their stock completely once every week. A chain of small-town department stores turns its stock once a month. These rapid turnovers are due primarily to good management rather to anything peculiar to chain organization. The one exclusive advantage of the chain in this respect is the possibility of controlling central warehouses that permit the units in the chain to carry on their shelves a minimum stock at any one time.

17. *Importance of price appeal.*—Not all chain stores use the low price appeal for trade. Some of them change market prices but give merchandise coupons that represent the equivalent of a fixed cash discount. Most of the chains try always to be under the market, at least on the leading items in their line, and it is probable that the price appeal, more than any other one thing, has been chiefly responsible for the great spread of the chain principle of merchandising.

18. *Are chain stores depression proof?*—The vitality of chain stores has been proved in times of business depression. In 1907, 1914, and 1921, when most businesses suffered, many of the chains continued to grow and prosper. The year 1921, with its large depreciations in inventory, was a bad year for many merchants. Yet the sales of fifteen of the largest chains in that year aggregated $798,955,000 as com-

pared with sales of $754,470,000 in 1920. True, the increased sales were partly the result of operating an increased number of stores, but the fact that expansion was possible and profitable in a time of general depression is a tribute to the strength of the organizations. The fifteen chains whose sales were included in the preceding totals represented six different lines of business—five grocery chains, four five-and-ten-cent store chains, two tobacco chains, one chain of shoe stores, two candy chains, and one chain of small-town general stores. Ten of them showed large net increases in sales. Only five showed small decreases. It would seem that chain stores, as a system of merchandising, are almost depression proof.

19. *Weaknesses of the chains.*—The advantages of chain stores in competition are great, but the chain store pathway is not entirely smooth. There are plenty of stones scattered around to trip the unwary. Not all chains are successful. The business is not one for the inexperienced or for those unfamiliar with the problems and difficulties of controlling scattered units from one central point. The problem of personnel is a constant one with the chains. It is not easy to find a hired store manager who will work as efficiently as an independent store owner will work for himself. A great, machine-like organization is likely to have some weak human cogs that weaken the whole structure. Chains that too completely standardize the stocks of all their stores, find difficulty in satisfying local demand for unusual items. The impersonal control of the organization is theoretically an obstacle to large success in small communities, altho in large cities this disadvantage is probably negligible. The cash-and-carry principle of some of the chains at times restricts their sales. None of these sources of competitive weakness, however, has seriously handicapped the chains. There seem to be fewer and less important elements of inherent weakness in chain store retailing than in any other form of retail merchandising.

20. *How the independent can compete.*—Despite the many and important advantages of the chain store in competition with the independent, the independent continues to thrive and will probably always continue to do so. The country is not yet ready to turn its retail merchandising over to a few large corporations. There is enough business for all, and the well-managed independent seems to be amply able to get its share. Even in the matter of prices, the independent store can go a long way toward matching the chains' offers. Price is as much a matter of efficient management and shrewd selling as it is of low first costs. The two greatest factors in low selling prices are quick turnover and low profits on the individual sale. There is no good reason why the independent, as well as the chain, can not use these selling weapons.

Some of the chains push their own private brands rather than standard, advertised articles. The independent store handling lines largely and favorably

known to the consumer has a sure basis of competition with the private brands of the chain. Hundreds of thousands of people find credit and delivery service a convenience for which they are willing to pay. Other multitudes must have credit to carry them over slack times. The independent store offering these kinds of service will always get business in competition with the cash-and-carry chain. The independent that develops and properly uses an individual and attractive form of advertising will draw trade despite the price appeal of the chain. Most important of all in the competitive armor of the independent store is its unique opportunity to give a highly personal service, to capitalize the personality of the owner, to adapt its stock to the peculiar requirements of its customers, to advertise legitimately thru the local civic activities of the owner and his assistants, and in many other ways to hold a clientele on the basis of personal good-will, neighborly friendship, and the traditional importance of the independent merchant in our economic and social system.

The chain store at times may be able to undersell the independent but it can not "over-serve" him. This is the independent's opportunity. Chain stores will undoubtedly continue to grow in size and influence, but only the extreme chain store enthusiast foresees a time when there will cease to be abundant opportunity for the well-managed independent retail establishment.

21. *The manufacturer's point of view.*—When a

manufacturer considers chain stores as distributors for his product, his problems are almost exactly the same as the problems involved in his consideration of department stores as outlets. These problems were considered in the preceding chapter. If he wishes chain store cooperation, he must be willing to pay the price. This price usually takes the form of special concessions of many kinds—discounts, delivery, terms of payment, and other forms of special consideration. In many cases he must be prepared to have the chains offer his goods to consumers at lower prices than can be offered by independent distributors. His goods, even when stocked by a chain, may receive little attention from the chain's employes who are paid to push its own private brands. Some of the chains make a point of carrying nationally advertised goods but the usual preference of the chains seem to be for special brands. In such cases the manufacturer who seeks this large market may be tempted to manufacture goods bearing only the private brands of the chains. In this case he must give careful thought to the considerations presented in the chapter on "The Private Brand Problem." The chains offer a large market, but in cultivating it the manufacturer may sometimes sacrifice security for profit.

In spite of the frequent difficulties of selling thru chain stores, their activities are so enormous that no manufacturer seeking national distribution in fields in which the chains are strong, can afford to leave them entirely out of his plans. He may decide that

his best interests are served by confining his sales to independent stores, but he will be unwise in coming to this decision unless he has first carefully canvassed the entire chain store problem and weighed in the balance the price of chain store cooperation and the advantages to be derived from getting their great power behind his product.

REVIEW

How is the chain store regarded by the independent retailer, the jobber, the manufacturer and the consumer?
In what fields are chain stores found?
What are the principal types of chains?
Discuss the advantages which chain stores possess.
What points of weakness have they shown?
In what ways may the independent compete successfully against the chain?

CHAPTER V

THE MAIL-ORDER HOUSE

1. *Influence of selling by mail.*—Among the notable influences on marketing and merchandising in the last quarter of a century has been the rise of the mail-order house. A single generation has seen the small beginnings of this new factor in distribution, its rapid development, and its arrival at a point that possibly marks the zenith of its dominating influence in the rural field. The rise of the mail-order house has been a most significant movement. Unquestionably it has had a marked effect on rural buying habits and standards of living. It has done much to bring about a realignment of small-town retailing. It has notably affected the business of jobbers, whose trade depends largely on the growth of country retailers. For the manufacturer, it has opened up new markets at the same time that it has added to marketing problems and has complicated the relations between manufacturers and dealers. The mail-order house and its influences can not be ignored by any one who has anything to sell. It has been reviled as an illegitimate intruder in the business field, and it has been hailed as the patron of rural development. The problems involved in mail-order selling are uni-

versal. What is its extent? What is its nature? What is its competitive strength? How can the local store compete?

2. *Who sells by mail?*—Selling by mail is practised by many kinds of business houses. First is the manufacturer who sells exclusively by mail to jobbers, retailers, or consumers, or who combines this method of selling with the use of personal salesmen. Second is the wholesale house that either sells entirely to retailers by mail, or uses the mails to encourage orders between the visits of its salesmen. Third is the retailer who mixes over-the-counter methods with solicitation of mail-orders, or who depends on the mails alone for his contact with consumers. Any house that sells in any degree by mail is, strictly speaking, a mail-order house. In common use, however, the phrase mail-order house is reserved for a particular type of establishment. It usually means a large organization selling direct to the consumer by mail alone, handling usually a diversified line of general merchandise, acting chiefly as a middleman, altho in some cases owning factories that produce part of the things it sells. It is this type of distributor we shall have in mind in discussing the mail-order house, always remembering that the phrase is just as legitimately applied to the mail-selling wholesaler or to the manufacturer who uses the mails to reach any class of customers.

3. *Extent of mail sales.*—Different investigators have estimated that from three to six per cent of the

total retail business of the United States is conducted by mail, and that as high as twenty per cent of the retail trade of rural districts has gone to mail-order houses. Whether these figures are accurate or not, it is certain that the mail-order business is very large in the aggregate and that its influence on all factors in marketing and merchandising is appreciable. One mail-order house, at the peak of prosperity and high prices in 1920 piled up sales totaling almost a quarter of a billion dollars. It may be some time before these figures are again reached, but annual sales of from fifty to one hundred million dollars or more are not uncommon for mail-order houses in the period following war-time inflation of prices. Any method of selling that can boast even a few houses doing business in these amounts must be given careful consideration in a study of marketing.

4. *When selling by mail began.*—The mail-order house was made possible by the development of quick and cheap means of transportation and communication. It could not take an important place in industry until the country was covered by a net-work of railroad lines or until the mail, express, and freight systems had reached a point that permitted the quick receipt of orders in a central market and the quick and economical delivery of merchandise even to far-distant and relatively isolated consumers. The mail-order business as we now know it was born in the generation following the Civil War, which was the period that witnessed an extraordinary develop-

ment in our national systems of communication and transportation.

5. *The effect of rising prices.*—The opportunity for large growth of mail-order houses was afforded by profound changes in economic conditions that occurred in the nineties of the last century. A period of generally declining prices set in with the close of the Civil War, coincident with the settlement of the West and the consequent large increase in agricultural products without corresponding increases in the market for these products. During this time when standards of living were at a standstill, there was relatively small demand on the farm for goods other than those supplied by the local dealer. About 1895 the price curve began to turn upward, and it continued upward for twenty-five years, almost all of them marked by increasing prosperity and by an increasing opportunity for the consumer to satisfy his growing material requirements. The substantial development of mail-order houses is exactly contemporaneous with the upward movement of the price curve.

6. *Inadequate stocks in country stores.*—As the farmer began to get more for his products, he began to want to buy and to be able to buy things that he had been forced to do without in the lean years preceding his prosperity. The small-town stores that had adequately served country communities in which money was scarce no longer were able to satisfy the increasing requirements of a rapidly rising

standard of living. This was only partly due to failure of the country dealer to change his methods to accord with new conditions. It was chiefly due to inherent difficulties of the general store in its competition with large mail-order houses. Perhaps the greatest single cause of the rapid growth of the mail-order business is the necessary limitations on the stock of the country general store. Handling a little of everything that the farmer eats and wears and uses, it can stock but little of any one thing. Its range of sizes, styles, and kinds is necessarily closely restricted. The large mail-order establishment, offering to the farmer and his wife nearly everything within the range of human wants, widened the consumer's ideas of living standards, aroused discontent with the relatively meager stocks of the local retailer, and proved a powerful competitor to the small-town storekeeper who found in the necessity of satisfying all his customers' wants not only an opportunity for service but also a source of inherent weakness that plunged him into a struggle for his very existence.

7. *Appeal of the mail-order catalog.*—It is commonly thought that catalog prices are low prices and that the low-price appeal is the chief factor in mail-order competitive strength. It is not clear that either of these suppositions is correct. Many investigators believe that the chief strength of the mail-order house is the selling power of the catalog, without regard to the prices at which goods are ordered.

A general storekeeper can not *sell* the many things he stocks; he is too busy to be able to do more than fill orders to satisfy the expressed requirements of his customers. A mail-order catalog, on the other hand, actually sells everything in its line. The pictures and descriptions of goods are attractive and convincing. Even the most sophisticated buyer can with difficulty resist the appeal of a well-written and well-illustrated catalog. Turning its pages is like taking a shopping tour in a completely stocked store where all the clerks are helpful and trained salesmen and where the eye is continually caught by some new article designed to add to the comfort, convenience, or luxury of the dweller on the farm or in the small town. Here is the real appeal of the mail-order house; and it is this appeal, too little regarded by the country dealer, that has been most effective in radically altering methods of rural merchandising.

8. *A national business.*—Another advantage of the mail-order house is the fact that its business is often national in scope. No purely local conditions of business depression can seriously affect its sales.

9. *Are mail-order prices always low?*—It can not be denied that, at least in the past, mail-order houses have offered some goods at prices lower than were offered by local retailers. It is the price appeal of the catalog house that the country dealer seems to have chiefly feared and tried to combat, and it is the price appeal that has usually been put forward

as the chief source of mail-order strength. Not all catalog prices are low. Many houses get higher prices by mail than the local retailer gets. Many others, while offering most of their goods at current figures, give the impression of generally low prices by prominently pushing carefully selected "loss leaders"—standard articles purposely offered at what may be a real loss in order to attract trade and to give a coloring of low prices to the catalog pages.

10. *Causes of low prices.*—When a mail-order house offers consistently low prices it can do so by passing on to the public part or all of the savings which the house may make in different phases of its operation. In the first place it may have favorable relations with sources of supply which enable it to buy at less cost than other dealers. In the second place it may employ efficient business methods that decreases operating expenses. Finally it may pass on to consumers savings inherent in the operation of a mail-order establishment.

Favorable relations with sources of supply is usually a matter of buying power. Quantity purchases reduce unit purchase price. Even when a particular item is not bought in large quantities, its manufacturer may be induced to quote a special price in return for the advertising his goods will get in the mail-order catalog. Because of its extensive operations a large mail-order house has buying connections in all important markets; it is in a position to pick up at favorable figures the many "jobs" and

odd-lots that are always available to the buyer with ready cash. It can, too, own and operate its factories to produce items that are in large demand by its customers. All these opportunities to make low selling prices, it should be noted, are not exclusive to the mail-order house. They result mainly from *size* of operation rather than from *method* of operation. The retail store can realize these same opportunities, just as well as the mail-order house, if it is large enough. The mail-order house has the advantage because it is usually a large establishment, while the individual small-town store is to a certain extent competitively weak because it is small in contrast.

11. *Operating savings.*—There are certain operating savings inherent in the business of a mail-order house. It can keep down overhead by operating outside of the high-rent district. It does not need an expensive location in the heart of a city; all it needs is a building to house warehouse and offices accessible to railroads and to a supply of labor. Because of the nature of its operations, the bulk of its employes may be recruited from a lower-paid class than retail store salespeople, trained to machine-accuracy in routine operations, but not necessarily possessing the characteristics of employes who have come face-to-face with customers. These and other operating savings inherent in the business may be passed on to buyers in the form of lower selling prices.

Most mail-order houses sell for cash only. They avoid the expenses of handling a large number of

credit accounts and escape all losses from bad debts. This gives them a real advantage in competition with the local store that must carry its customers and must recoup its credit losses by getting higher prices from those who pay their debts. The mail-order house can establish a strictly cash policy and lose few sales because of its refusal to grant credit; while the local store may grant credit not because it wants to, but because it fears to lose trade if it refuses. More and more the local store is learning to grant discounts for cash that equalize the advantages the mail-order house formerly had because of its non-credit policy. The mail-order house does not need to carry large stocks; customers expect to wait a certain time for their goods, and often the mail-order house, on receiving a customer's order, has shipment made direct from some factory to the customer for its account. This is done particularly in the case of bulky goods, and the saving in invested capital is considerable. On the other hand, the customer of the local store usually expects to get delivery immediately out of the store's stock. The country storekeeper is gradually teaching his trade that if they will permit him to order their bulky goods only as they want them, he can give just as quick and just as cheap service as the mail-order house.

12. *Savings from efficient management.*—Efficiency of operation brought about by trained and highly paid management has in the past resulted in frequent stock turnover in some mail-order houses

that could not be matched by the local stores with which they were in competition. Perhaps no other one thing matches frequent stock turnover as a factor in decreasing selling cost. A business that can get back every dollar of its stock investment ten times a year can afford to make much lower prices than a business that gets back its stock investment only once or twice a year. This is merely a matter of good management, however, and, if the mail-order house has this advantage, it is because the large mail-order house is usually run more efficiently than the average small general store.

13. *The cost of selling by mail.*—There is a prevailing idea that selling by mail is less expensive than selling over the counter. It is true that there are certain savings in mail-order operating costs. It is not true that actual selling costs are generally less in a mail-order house than in a small-town retail store. The direct selling costs in a retail store consist of the wages of the buyers and salespeople and the cost of any advertising or sales promotion in which the store may engage. The direct selling costs in the mail-order house consist of the wages of buyers and correspondents and the very heavy expense for advertising. The largest advertising expense is usually the catalog, and this, in the case of large establishments, is a heavy cost indeed. One mail-order house reports an annual expense of $6,000,000 for catalogs alone. So great is the necessary advertising expense that it usually counteracts

all other operating savings. In 1917 nine mail-order houses operating nationally showed an expense of doing business ranging from sixteen per cent to twenty-six per cent of total sales. In the same year hardly any well-managed country store would have exceeded these figures. In 1920 and 1921 expenses of doing business increased greatly, but they went no higher in small-town stores than they did in mail-order houses. The fact is that the popular idea about the economy of selling by mail is incorrect. Generally speaking, it costs just as much to sell goods by mail as it does to sell them over the counter.

14. *Lack of personal contact.*—The growth of the mail-order house proves that it has had certain advantages in competing with small-town stores. The advantages are not all with the mail-order house, however. The lack of personal contact with customers is a real disadvantage. People like to do business with people. A store with courteous, well-trained, intelligent salespeople, animated by a spirit of helpfulness and fair dealing, and pervaded by the personality of a friendly, wise, and liberal owner, can build up a clientele of satisfied customers whose loyalty to the store and its owner will stand the strain of the most alluring appeal of the catalog house.

15. *Other disadvantages of the mail-order house.*—The opportunity to inspect goods before ordering them is provided exclusively by the local store; the suspicion that goods may not actually be quite as

described in a catalog, despite a money-back guarantee, is a real obstacle to ordering by mail. If goods bought from a catalog are in any way unsatisfactory, it takes time and patience to obtain an adjustment by mail; while the local store that has a liberal adjustment policy can capitalize it to its own advantage. The prospect of delay in delivery of goods ordered at a distance blocks many mail-order sales. To justify delivery charges, catalog purchases must frequently be in larger quantities than can be purchased economically from the local store. In this fact lies a strong competitive advantage for the store that deals with many people whose limited means makes it impossible for them to anticipate their needs and to buy for anything more than day-to-day consumption.

16. *Opportunity of the local store.*—When the mail-order business was young, many retailers thought they could meet it by condemnation, coercion, and legislative enactment. The mail-order house was spoken of as an illegitimate intruder in the merchandising field, there were attempts to boycott manufacturers who cultivated mail-order outlets, and legislatures were induced to pass laws to hinder mail-order selling. None of these things was successful. People continued to patronize catalog houses, and the catalog houses proved their right to exist by constantly increasing the number of their satisfied customers and by growing rapidly in strength and influence. It was only when the

local retailer learned really to compete with them, that the trend toward the new method of rural merchandising began to be checked.

17. *Growth of better country storekeeping.*—The mail-order house has taught the country dealer to be a better merchant. He has learned the necessity of carrying a better selected stock, getting greater turnover in order to keep down prices, displaying his goods to better advantage, training his salespeople to give helpful information to buyers, and, above all, he has learned from the mail-order houses to make his advertisements something more than mere contributions to the support of the local newspaper. Nearly every country community today has at least one modern, progressive, intelligently conducted store where the customer can satisfy his wants quickly, conveniently, and economically, and where he can get more accommodation and service than he can expect from the distant mail-order house.

18. *What happened in 1921.*—The chief influences tending to make the country general store a stronger competitive factor have been discussed in the chapter on "The Local Retailer." These influences were operating for many years prior to the end of the great upward movement of commodity prices. The year 1921 added a factor of strength to the country store. In 1921 the great mail-order houses, in common with many other lines of business, suffered from the "buyers' strike." This was followed by a decrease in the purchasing power of farmers. The

dependence on a single class of customers proved an important source of economic weakness for the mail-order house. A still more important occurrence in 1921 was the passing of the peak of high prices and the beginning of the low swing downward in the cycle of commodity prices. An immediate result was the large depreciation of inventories with its attendant losses. This misfortune was not experienced by mail-order houses alone. Declining prices do, however, affect the mail-order houses in a unique way.

19. *Changing prices and their effect on mail-order houses.*—We have seen that the catalog house began to be an important competitive factor following the beginning of the upward movement of prices in 1895. A mail-order catalog is usually issued once every year or every six months. With rising prices, the mail-order catalog that is several months or years old is an effective advertisement of lower prices than the local dealer, buying frequently and as frequently adjusting his selling prices to the rising market, can offer to his trade. With the beginning of a downward trend of prices the situation was radically changed. The local dealer, buying in small quantities and constantly alert to give his customers the advantage of every declining market, can frequently offer goods below the prices shown in a mail-order catalog that has been in print for even a few months. In a falling market there is not time to get out a

voluminous mail-order catalog and to ship it all over the country before there is a drop in prices that makes every outstanding catalog an advertisement of prices higher than those that the progressive local dealer can offer.

20. *Future of the mail-order house.*—Should falling prices continue for some time to come, it would without any question mean increasing difficulty for the mail-order house and increasing opportunity for the wide-awake country retailer. It would take all the buying power of the catalog house and all the economies of operation of which it is capable to enable it to maintain a price advantage in view of the new conditions that would come as a result of such continued readjustment of price levels. The mail-order houses must adopt new methods. We are likely to see fewer large seasonal catalogs, and more smaller departmental offerings published at frequent intervals. It is possible that the mail-order house will cease to appeal chiefly on a price basis and will emphasize more than in the past the quality of its goods and the great range of styles and sizes that it can offer. By carrying fewer staple lines and concentrating its purchasing power on "jobs" and special offers, it may seek to maintain its former price advantage. It may be forced to make fewer deliveries from stock, and to build up more of a brokerage business in order to avoid the heavy risk of loss from depreciation of inventories. Or, in

other ways, it may alter its former procedure to maintain its position while harmonizing its activities with changed conditions.

The mail-order house is too firmly established to be forced from a position of permanent importance in merchandising. It will, however, find it necessary to change many of its policies and methods, and the local dealer alive to his opportunities will find himself in a new position of strength to get his share of the trade in competition with the force that has for so many years been a greatly disturbing factor in rural trade.

21. *Wholesale selling by mail.*—Much of what has been said in this chapter about the retail mail-order business applies equally to wholesale selling by mail. The growth of the mail-order jobber has been coincident with the growth of the mail-order retailer. A few jobbing houses sell entirely by mail. Many more issue catalogs to supplement the work of salesmen. The catalog enables the jobber to reach isolated districts where traveling is expensive and difficult. It gets plus business for the jobber by acting the part of a silent salesman at the very moment when the retailer realizes a need for additional goods. It encourages dealers to turn their stock more frequently by ordering often and in small quantities. Despite the very large success of certain wholesale houses selling exclusively by mail, chiefly to country general stores, this method of wholesale distributing is not likely to affect seriously the business of other

types of jobbers, because of the real aid which the traveling salesman can offer to his customers and because of the long-established liking of retailers for buying in the market or from salesmen who carry their samples with them. The use of catalogs in conjunction with the use of salesmen, however, offers opportunities for increased business which wholesale houses are more and more realizing. Selling by mail is here to stay, and manufacturers and wholesale houses as well as retailers, who wish to develop every opportunity for increased business, will more and more utilize its aid in building up their trade.

REVIEW

What kinds of business houses engage in mail-order selling?

What are the influences which are responsible for the development of mail-order selling?

Discuss prices in mail-order selling.

What savings are secured by the mail-order house?

Compare the costs of selling by mail with over-the-counter selling.

How may the small-town stores compete successfully against the mail-order houses?

Discuss the effect of recent price changes on mail-order selling.

CHAPTER VI

THE JOBBER AND HIS STATUS

1. *Jobber's service little understood.*—We have defined a jobber or wholesaler as one who buys, usually in quantities, for the purpose of selling the same goods again without alteration to other dealers. The consumer seldom knows him. Partly because of the consumer's lack of contact with the jobber and the resulting general ignorance of the jobber's service, a suspicion has arisen that his service is uneconomical and not worth its cost to society. When the middleman is attacked, it is usually the jobber who has to bear the brunt of the criticism. No one can understand modern marketing who does not understand what the jobber does for manufacturers, retailers, and consumers, and the place he holds in the distribution of many great lines of staple products.

2. *What are jobbing lines?*—Not all manufactured goods are sold thru jobbers. In some lines the jobber is losing importance; in others he never was important. In many others, however, he still maintains the important position he has held ever since the market for a factory's output ceased to be confined to a small circle of nearby consumers. The jobber finds his chief field for usefulness in serving

that type of retailer who stocks a large variety of different kinds of goods, produced by many different manufacturers. His place is most secure when the retailer's unit of purchase of each kind of goods is relatively small. Lines of goods that have these characteristics are normally known as jobbing lines. Outstanding examples are groceries, drugs, dry-goods, and hardware. Not all goods in these lines are sold thru jobbers, nor are these lines the only ones in which the jobber maintains an important position. It is in these fields, however, that the jobber's position can be most clearly defined, and it is these fields and others similar to them that we shall have in mind in discussing the service and the status of the wholesale distributor.

3. *What is the jobber's pay?*—Does the jobber earn his pay? His share in the spread between manufacturer's selling price and consumer's buying price is not so great as is often supposed. There are lines in which the jobber's gross profit is less than ten per cent of his total sales. Other lines allow the jobber a gross profit up to twenty-five per cent or even higher. Figures are not available to show the average jobber's gross profit on all lines of goods, but probably it is not greatly in excess of fifteen per cent. Out of this he must pay the expenses of conducting his business, he must earn a return on the capital invested, and he must have something left as net profit if he is to continue to run the risks of his calling. If the net is as high as three per cent, the

average jobber considers himself very fortunate. Usually the net return is much less.

It must not be supposed that the jobber's compensation constitutes an addition to the consumer's buying price which could be eliminated if the jobber were to cease to operate. The things the jobber does would have to be done by some one else—the manufacturer or the retailer—if the jobber did not do them, and, regardless of who did them, they would cost money. The friends of the jobber contend that the latter can do these things more effectively and more economically than any one else, and that the jobber's services, therefore, instead of being a tax on society are a contributing cause of the maintenance of minimum prices to the consumer. The jobber serves the manufacturer, the retailer, and the consumer. We shall briefly inspect each phase of this service.

4. *Jobber is specialist in marketing.*—From the manufacturer's standpoint, the service rendered by the jobber is that of a specialist in marketing. The jobber is in business solely to buy and sell goods. He knows the trade intimately; he knows the demand and how to satisfy it; he knows what will sell and what will not sell; he has a clientele of relatively permanent customers; he provides a ready-made market for the goods of the manufacturer who can obtain his cooperation. Many manufacturers, particularly the smaller ones, are not skilled in marketing, and they find it cheaper to use the jobber's services

than to attempt the expensive process of studying and reaching the retail trade without the jobber's help.

5. *Jobber has ready-made sales force.*—Allied with this service is that which the jobber offers in providing a ready-made sales force for the manufacturer's goods. There are approximately 300,000 food retailers in the United States. Every one of them is visited frequently by one or more of the many thousands of jobbers' salesmen. If a manufacturer of a food product were to attempt to sell direct to all retail grocers, he would probably need 500 or more salesmen. On the other hand, if he used the jobbers' selling forces and confined his own sales activities to keeping the wholesale trade in line, he could possibly get along with as few as fifty salesmen. The enormous difference in expense to the manufacturer between these two methods of marketing is obvious.

6. *Jobber cultivates market intensively.*—For many manufacturers the jobber can afford to cultivate the market much more intensively than the manufacturer could afford to cultivate it for himself. A manufacturer making only a single article, sold to dealers in limited quantities at a time and at a low price, could not afford to call on small dealers or go into small towns. His sales to each dealer or in each town would not pay his expenses. The jobber's salesman, however, may deal in a hundred or a thousand articles. His individual sales of any one manufacturer's product may be small, but the order for that product is part of an order for many other

things, and the total sale to each dealer even in a very small community pays a large enough gross profit to justify the expense of the solicitation. There is hardly a dealer so small that he is not visited frequently by several jobbers' salesmen.

7. *Storage service.*—Retailers are rapidly learning the advantage of keeping their stocks as small as possible so that the ratio of sales to average stock carried may be high. To get a high turnover they wish to purchase frequently and in small quantities. In some lines the perishable nature of the goods adds another inducement for small and frequent purchases. To make this kind of purchasing possible there must be many centrally located wholesale warehouses. If the manufacturer sold direct to the retailer, he would have to maintain such warehouses himself. By dealing thru jobbers he is saved this expense. The warehousing function is one of the most important and expensive of the jobber's services to manufacturers and retailers.

8. *Service in carrying account.*—The jobber frees the manufacturer from the problem of credits to retailers. Dealing with thousands of retailers involves considerable expense for bookkeeping, for the adjustment of credit relations, and for collecting, while losses from bad debts can not be avoided. The manufacturer who deals only with jobbers, greatly reduces his credit risk and cuts his accounting and clerical expenses to a minimum.

9. *Variations in jobber's service.*—Not all manufacturers who deal thru jobbers will use all the kinds of service that the jobber is prepared to offer. For example, the warehousing service is sometimes dispensed with—orders are taken by the jobber's salesmen, but the orders are filled by "drop shipments" made direct to the retailer by the manufacturer. These shipments are billed by the manufacturer to the jobber, and the jobber takes full responsibility for collecting from the retailer. Some manufacturers, while using the jobber's sales force for the bulk of business from retailers, also send out their own missionary salesmen to the retail trade to encourage interest in the manufacturer's goods or to help the jobber's salesmen in their efforts to sell. If a missionary salesman takes an order, it is put thru some jobber designated by the retailer; the jobber assumes responsibility for it, fills it perhaps from his own stock, makes the collection, and takes his regular profit on the transaction. Besides these two modifications of the ordinary method of selling thru a jobber, which are frequent, there are other ways in which manufacturers may vary the usual form of jobber's services. Nevertheless the jobber stands ready to give the kinds of service that have been enumerated. That the service is worth its cost and that in many cases the manufacturer himself could not perform the same service so effectively or so economically is proved by the strategic position that

the jobber continues to occupy in the marketing of many kinds of manufactured goods.

10. *How jobber serves retailer.*—In so far as the chain store has developed, the importance of the jobber to certain kinds of retailers has been reduced. Chain-store organizations usually buy direct from the manufacturer, but they control only a limited amount of retail distribution. Even in large cities the small independent neighborhood store continues to flourish, and in smaller communities the independent retailer will perhaps always be the dominant factor in merchandising.

The existence of most stores of this type is made possible by the service offered by the jobber. Consider, for example, a small neighborhood grocery store. It may have on its shelves 1,000 or more different kinds and brands of goods, the products of several hundred different manufacturers. The store has been buying its stock chiefly from three or four jobbers. Now let us suppose that all the jobbers were eliminated; that the retail merchant had to buy every item in his stock direct from the manufacturers, and let us try to figure out what would happen.

11. *Difficulty in keeping complete and well-balanced stocks.*—The retailer would find it difficult to keep complete stocks. Without the friendly help of a jobber's salesman and without an elaborate and expensive system of stock records, the necessity of constantly reordering from many manufacturers

would be a real obstacle to the carrying of complete stocks. It would be even more difficult for the retailer to carry a well-selected and well-balanced stock. It is to the jobber's interest to see that his customer does not order too much of one thing and too little of another, because the jobber's success depends on the retailer's success. Without the jobber, the retailer would be importuned constantly by the horde of manufacturers' salesmen to stock large quantities of one line at the expense of other lines that he ought to carry. An unbalanced stock would inevitably result. The jobber ordinarily does not push any one kind of goods. He tries to build up the retailer's business as a whole, and he renders valuable service by aiding him with all kinds of buying and selling plans.

It is not to be expected that a multitude of competing manufacturers would be governed in their selling by the same solicitude for the individual retailer's continued success that the jobber must feel. Allied with the difficulty of keeping complete and well-balanced stocks, which would follow the elimination of the jobber, would be another very serious difficulty. The actual time spent in seeing the salesmen of several hundred manufacturers or in ordering from their catalogs would be enormous. With the jobber eliminated, only the largest stores, employing many responsible buyers, could survive.

12. *Need of capital.*—In many lines the retailer dealing direct with the manufacturer would have to purchase in larger quantities than if he bought from

the jobber, because the solicitation of small orders would not pay the small one-line manufacturer. The dealer would require larger capital than is now needed in his business. He would need, too, increased storage space to take care of increased stocks. All this would be reflected in increased costs of doing business, slower turnover of capital, and either decreased profits to himself or increased prices to his customers.

13. *Credit arrangements.*—Finally, with the elimination of the jobber, thousands of retailers would have to close their doors because of the cessation of credit arrangements that enable them to exist. The jobber is often the retailer's banker; with faith in the retailer's ability to succeed, the jobber gives him a line of credit based on confidence in his character and his business ability, nurses him along until he gets on his feet, and at many crises in the retailer's business history extends the helping hand of credit and confidence. With the withdrawal of the jobber and with the keen desire of many competing manufacturers to get their money without delay and without risk of loss, many thousands of retailers would find it impossible to steer their business barks thru the difficult waters of finance.

14. *Struggle for survival.*—The conditions that the retailer would have to face with the elimination of the jobber, show clearly that for the small dealer in so-called jobbing lines, at least, the jobber is an absolute necessity. Without the jobber a large proportion,

possibly fifty per cent, of all retailers would have to drop out of business, and the field would be left to those who are large enough and strong enough and backed by sufficient capital to do for themselves the things that the jobber now does for them. To be sure, cooperative buying does for some what the jobber would otherwise do, but whatever substitute is offered for the jobber, it should be understood that the services performed by the jobber involve a certain expense, and that that expense remains about the same regardless of who performs the services.

15. *When jobber is necessary.*—It is well to remember that all that has been said in this chapter applies only to retail lines in which the jobbing function, because of the nature of the business, is essential to the small dealer. If a store can buy its entire stock of goods from a few manufacturers, the service of the jobber is not vital to the industry. If in such lines the jobber exists at all he does so because of tradition, because he has learned to operate more cheaply than the direct-selling manufacturer, or because for some other reason the retailer prefers to deal with the jobber rather than with the manufacturer. It should also be remembered that we are not considering the advantages and disadvantages of the present system of multitudinous small stores scattered everywhere thruout the country, and of the present system of independent, strictly competitive, relatively small manufacturing units. Those are the conditions under which we are operating, and

under them it can not be denied that the jobber is often essential to the existence of the average retail store in many staple lines.

16. *Jobber's service to consumer.*—Finally, the jobber serves the consumer. He permits the existence of the convenient neighborhood store; he is useful in creating time and place utility; he provides an economical method of marketing for many manufacturers, and thereby helps to keep down prices; he encourages retail competition, increases retail efficiency, tends to weed out the unfit in merchandise and to encourage the sale of goods of quality. He touches the lives of the public in such a variety of ways that, if he were to disappear from the merchandising field, we should find ourselves seriously inconvenienced; we should have to abandon old buying habits and form entirely new relations with the sources of supply of many of the things that we eat and wear and use.

17. *Jobber not to be eliminated.*—In spite of the forms of service that the jobber is prepared to offer to manufacturers, retailers, and consumers, there is a constantly increasing number of manufacturers who decline in whole or in part to take advantage of the jobber's services and a growing body of retailers who prefer to make their purchases direct from the manufacturer. We are to consider the jobber's changing status first from the standpoint of the retailer and then from the point of view of the manufacturer, but, in doing so, it is well always to bear in mind that,

regardless of the possible changes in the strength of his position, the jobber can not be eliminated from our merchandising system. He may disappear from some kinds of business, and his functions in others may be greatly changed, but as an important factor in many industries he must necessarily continue as long as we operate under our present system of competitive merchandising.

18. *Increased buying power of retailers.*—Why is the retailer seeking more and more to make his purchases direct from the manufacturer? The most important reason is probably the increased size of some retail buying units. The retailer who can buy in large quantities naturally demands the same price at which the manufacturer would sell equal quantities to the jobber. He seeks the jobber's profit for himself. Large specialty stores, department stores, chain-store organizations, and the great mail-order houses can all buy in such large units that they are willing to forego the jobber's services in order to get minimum quantity prices for themselves.

19. *Pressure of competition.*—To compete with these large direct-buying establishments, small retailers at times form cooperative buying exchanges which demand from manufacturers on their pooled purchases the same prices that are obtained by the larger retail organizations buying individually. When a single retailer or a group of retailers demand direct buying connections on the strength of their buying power, they consciously abandon the old idea

that there should be certain prices to jobbers because they are jobbers and other prices to retailers because they are retailers; they set up the relatively new idea that the only basis of price differentiation should be the quantity purchased, regardless of whether it is jobber, retailer, or consumer who buys that quantity.

20. *Ease of buying direct.*—Retailers are encouraged in their attempt to purchase direct by the increased ease of dealing with the manufacturer. The number of manufacturers' salesmen calling upon retailers is constantly increasing; facilities for the quick and cheap transportation of even small shipments direct from factory to store are much better than formerly; and the possibility of ordering frequently and conveniently by mail from the manufacturer is being realized more than ever before.

21. *Retailers know sources of supply.*—The rapidly growing practice among consumers of buying goods by brand names encourages the retailer to think of the manufacturer rather than the jobber as the natural source of supply. As long as consumers asked simply for flour, the dealer did not pay much attention to brands and manufacturer; he bought usually on a price and quality basis from the jobber. But when his customers began to ask for some particular brand of flour, the manufacturer's instead of the jobber's name naturally occurred to the retailer when he thought of ordering. National advertising has made the manufacturer known to the retailer.

22. *Some lines not sold by jobbers.*—Some manufactured lines have developed in such a way that they are no longer generally handled by jobbers. Ready-to-wear clothing, for instance, is not commonly considered a profitable jobbing line. When goods cease to be profitable to the jobbers, the jobbers abandon them or become manufacturers on their own account, and the retailer is forced to buy from the manufacturer.

23. *Why manufacturer sells direct.*—"Selling direct" in trade parlance ordinarily means going over the jobber's head and selling direct to the retailer. The manufacturer's declaration of independence of the jobber is partly due to the fact that some jobbers have departed from the old jobbing functions and have undertaken or abandoned certain activities in an effort to strengthen their position. The result of this change in functions will be considered in a later chapter on the "Private Brand Problem." We are here concerned with those reasons for selling direct that apply to the old-line jobber who has not varied his activities from the traditional model.

24. *Jobber's inability to push one line.*—A recent catalog of a wholesale grocer contained over 6,000 items divided among 724 different kinds of goods. Among them, for instance, were 102 brands of coffee, 30 different kinds of coffee substitutes, 84 makes of canned beans, and 75 kinds of cigars. Obviously the amount of real salesmanship that can be put behind any one manufacturer's goods by the jobber's salesmen is very limited. They can not know the selling

points of more than a small part of all the things they are supposed to sell. The physical necessities of the case compel the jobber to say, in effect, to the retailer: "Here are many different brands of the same kind of goods. They are all good, or I should not be handling them. Take your choice." He can not in fairness push one brand at the expense of other competing brands that he may carry—and he must normally carry competing brands because he is in business to serve the retailer with the kinds of goods that the retailer and the retailer's customers want to buy. Altho this situation can not be avoided, it is unsatisfactory to the manufacturer who wants real salesmanship put behind the sales of his particular goods to the retail trade. This is an important reason for "going direct" to the retailer.

25. *Desire to keep close to the market.*—When a manufacturer produces goods for a national market he is often not content simply to secure a large volume of sales. He measures his progress not merely by actual sales, but also by the relation between actual sales and sales possibilities. To determine sales possibilities he must study each local community and set a mark for his sales in that community. All this means that the modern manufacturer seeking the largest possible volume of business must follow his distribution all the way down thru different classes of distributors to the final consumer in order to be sure that he is making the strongest possible appeal in each community to the largest possible group of consumers. Close study of the market, definite plans for reaching all parts of the market, and constant comparison between possibilities and results are characteristic of modern intensive sales management.

When a manufacturer deals thru jobbers, he has no definite knowledge of where his goods finally go into consumption. His total sales to Chicago jobbers, for example, may increase or decrease, but Chicago jobbers operate over a wide territory, and it is by no means certain that sales to retailers in the city of Chicago can be measured by the manufacturer's sales to jobbers in that city. The inability to follow goods clear thru to the point of final consumption, when the jobber's services are used, is an important reason for direct selling by manufacturers. Allied to it are the desire of the manufacturer to use special selling measures to bolster up his sales in communities where he has proved that he is weak, and the frequent inability to induce the local jobbers to cooperate in any special ways in those communities.

26. *Some jobbers antagonistic to advertising.*—Some few jobbers resent national advertising by manufacturers. They say the profits on advertised goods are too small; they complain that the manufacturer is making of the jobber a mere machine; they resent their lessening influence with retailers occasioned by the growing consumer demand for advertised goods. This attitude is not logical unless the profit on an advertised line is really too low. Few jobbers hold to this point of view, but when they are found, they

encourage the advertising manufacturer to seek his own markets rather than to spend the time and money necessary to enlist the jobber's support.

27. *Effect of price cutting.*—When the manufacturer's control of the resale prices of his goods in the hands of distributors was not yet frowned upon by the courts, price cutting by jobbers and the desire of manufacturers to be sure that all retailers under similar conditions paid the same prices for their goods, was a common reason for the manufacturer's abandoning his jobber relations and going direct to the retail trade. Price cutting by jobbers was possibly an important stimulus to the development of manufacturer-direct-to-retailer selling systems.

28. *Exclusive agencies and direct selling.*—Certain kinds of goods are best handled when they are sold by only one or only a few carefully chosen dealers in a town. The large sales of these dealers make direct selling by the manufacturer possible. If sales are made thru the jobber, the manufacturer may experience great difficulty in inducing the jobber to make proper selection of retail outlets, and, even if the selection is properly made, he can not readily maintain those close relations with the exclusive agencies that are usually desirable if maximum sales are to be made in the community.

29. *Complete lines and nature of products.*—When a manufacturer so extends the number of items in his line that he can make relatively large unit sales to the

retailer, he ceases to find the jobber absolutely necessary in his operations. The large manufacturers of biscuits and crackers now make so many different items that they can afford to go direct to the retailer with their goods. An added reason for direct selling in their case is the fact that the product deteriorates with age. Goods that are liable to rapid deterioration must be marketed by a system that will insure their reaching the retailer by the quickest and most direct route. Meat packers sell direct to retailers, largely for this reason. On the other hand, the fact that jobbers can give satisfactory service even in the case of spoilable goods, when the demand is so great as to permit rapid turnover of wholesale stocks, is proved by the jobbers' continued effectiveness as distributors of breakfast foods and other similar products.

30. *Lowered cost of direct sales.*—Finally the growing practice of going over the jobber's head to the retailer may be attributed partly to the increasing density of population. When retailers are widely scattered and the expenses of traveling salesmen are consequently high, manufacturers are usually unwilling to undertake the cost of selling direct. It was under these conditions that the jobber came to be recognized almost universally as the most economical distributing medium. But when many possible retail customers are grouped close together, the comparatively small expense of a local warehouse and of

sending the manufacturer's salesmen direct to retailers tempts many manufacturers to undertake this method of selling.

31. *Direct selling is natural tendency.*—Altho the changing status of the jobber is due partly to the desire of manufacturers and retailers to keep or to obtain for themselves the jobber's profit, it is more largely due to the many things that have happened of late years to alter marketing methods—things that have catered to a natural desire on the part of all factors in trade to shorten the chain of distribution. We must always remember, however, that, altho direct selling is a natural tendency and must be expected to increase, the jobber's essential place in industry is founded deep in the social and economic organization, and he will continue to serve the manufacturer, the retailer, and the consumer alike for many, many years to come.

REVIEW

In what lines of goods is the jobber's service of use to the retailer?

What services does the jobber perform for (a) the manufacturer, (b) the retailer, (c) the consumer?

Will the jobber be eliminated?

For what reasons are retailers to an increasing extent buying direct from manufacturers?

Why is the manufacturer willing to "sell direct"?

CHAPTER VII

SPECIAL DISTRIBUTING FACTORS

1. *Kinds of special factors.*—In considering marketing channels we have discussed jobbers and the various types of retailers as if they were the only factors in the distribution of manufactured goods. They are the most important ones in point of numbers, but in certain industries other factors are largely used and have a vital bearing on marketing procedure. These other aids in marketing we call special distributing factors because they are not frequently found in most industries, or because, when they are found, they often perform a special type of service distinct from that of either the old-line jobber or retailer. Special distributing factors go by a great variety of names, and the names themselves have varying significance in different industries and sometimes within the same industry. Among the better known names for these middlemen are the following: agents, mill agents, commission merchants, selling houses, brokers, converters, factors, and auctioneers.

2. *Special wholesale middlemen.*—It is a universal characteristic of most of these distributors that they are wholesale middlemen—very few of them come into direct contact with the consumer. In the ma-

jority of cases they do not take the place of either jobber or retailer; they form additional links in the chain of distribution. Usually they stand between the manufacturer and the more customary types of wholesale and retail distributors. They are most frequent in the oldest kinds of manufacturing industries, where traditions have governed procedure for many years, where strong organizations of middlemen have gained great influence in the market, and where the opportunity for the manufacturer to find new and short sales channels for his own product is not so great as in newer industries where the bonds of custom are little regarded.

3. *The influence of custom.*—Probably the chief argument for the activities of most of the special classes of middlemen is trade custom. Selling houses, mill agents, or commission merchants have, for example, exercised great influence in the marketing of cotton textiles since the birth of the industry. In an early day they were universally needed. The country was sparsely settled; cotton mills were for the most part grouped in a small portion of New England; individual mills were small and not always strong financially; there was a sharp line drawn between manufacturing and selling—the manufacturer seldom was intimately acquainted with selling processes, and preferred to put all his capital, thought, and energy into production. Under such conditions there naturally came into existence a group of middlemen, who, by taking upon themselves the responsibility of marketing the entire output of a mill, relieved the mill owner of the necessity of finding and cultivating his own market. There is still a real need for these middlemen in many instances, but in many others they persist, tho no longer absolutely necessary, because traditions in trade are as strong as traditions usually are in any other field of human endeavor.

4. *Limited capital as a justification for special middlemen.*—Another important justification for special distributing factors is found when the capital of the manufacturer is limited. A jobber is frequently the retailer's banker, but he less seldom finances the manufacturer. If a manufacturer needs additional money to operate his plant, and has no facilities for financing in the customary ways, he may find some mill agent, commission man, or other factor, who, in exchange for the manufacturer's agreement to let him market his entire output, will advance funds for the purchase of raw materials and for other manufacturing needs.

5. *Effect of small output.*—Small output may be the deciding factor in the use of special distributing factors, particularly when coupled with a scattered and relatively thin market. A manufacturer of a food specialty may not feel able to finance direct sales even to wholesale grocers—the sales to each one might not justify the direct selling expense. A merchandise broker, handling several non-competing lines, may be found who will take on his product and merchandise the entire group of products to wholesale

grocers at a lower cost to each manufacturer than if each were to try to sell his own goods.

6. *Distance from the market.*—Unfamiliarity with the market and distance from it are often the causes of the use of special marketing factors. Such causes explained in large measure the use of these factors in textile trade particularly in New England. With the development of the country, New England manufacturers are now less dependent on outside aid in finding and cultivating markets, while the rise of relatively isolated Southern cotton mills has opened a new field for the operations of the expert sales organizations that have always aided the textile manufacturer.

7. *Definitions vs. common usage.*—In considering the definitions of the different kinds of special marketing factors, it must be remembered that there is much popular confusion in the use of the various terms. Dictionary and legal definitions are one thing, and popular usage is another. It is well to know the precise meaning of the terms, but it is necessary also in every instance, before using one of these distributing factors, to look behind the phase that he uses to describe his activities, and to find out in the individual instance just what those activities are.

8. *The agent.*—Strictly speaking, an agent is the direct representative of a manufacturer, jobber, or retailer, compensated on some other than a straight salary basis, acting as an independent business man not responsible to his principal for the details of his

activities. The principal may dictate general policies, profits, prices, and terms of resale, but the agent still retains large control over his methods of doing business. A true agent usually sells by sample. The law of agency says that the principal is bound by the agent's acts when he operates within the specified scope of his agency, or when he does what is usual and customary in the trade, and thus to the customer's eyes acts within his apparent authority, even tho he may not have specific authority to do the thing in question. If he should carry consigned stock for the principal, the principal would bear the risk of loss.

9. *Where the agent is found.*—Frequently a sales agent takes the responsibility for the entire output of a factory. This is common in the hardware field where many relatively small manufacturers produce items of small unit value. In the textile field, sales agents, or mill agents as they are commonly known, by assuming responsibility for marketing all of a factory's products serve the manufacturer in important ways. By agreeing in advance of production for a season to take the entire output at an agreed upon price, the mill agent frees the manufacturer from the risk of loss involved in fluctuating market prices. The manufacturer, of course, also foregoes the responsibility of profit from fluctuating market values, but the benefit of insurance against loss is great enough to justify the arrangement. In addition to textiles, other lines such as hosiery, underwear, and gloves are often marketed thru mill agents.

10. *Two kinds of agents.*—The word agent is commonly applied to two very different kinds of middlemen. There is, first, the agent in the strictly legal meaning of the word, who is only a sales representative, selling by sample, taking orders subject to acceptance by his principal, and having no responsibility for collections or deliveries. As a variation of his normal activity, he may guarantee payment by the accounts that he opens. On the other hand, there is the agent who maintains warehouses, delivers and bills his own sales, and makes his own collections. In other words he assumes all the functions of a trader. Sometimes he actually owns his stock outright. In such cases he is actually an independent wholesaler or retailer. He is called an agent only because of tradition or loose custom in the trade.

11. *Wrong use of word agent.*—There is still another use of the word agent. Sometimes a sales manager is called a sales agent. This is merely a survival of the time when nearly all manufactured goods were actually sold thru independent agents who relieved the manufacturers of the responsibility of cultivating their own markets. Traveling salesmen are at times erroneously known as agents. In the interests of clear thinking and accurate speaking, these and other loose uses of the term are to be avoided.

12. *The commission merchant.*—In the legal sense, a commission merchant or factor is one who receives goods on consignment, sells them for what they will

bring, and returns part of the selling price to the principal, retaining an agreed upon percentage as his commission or brokerage. When on consignment with him the goods are held at his own risk, and he sells them in his own name. In these respects he differs from the agent who, strictly speaking, holds goods, if at all, at the risk of the principal, and who sells for the principal and usually in the principal's name. Furthermore the commission merchant has large discretion in the fixing of prices and terms, and he is normally responsible for deliveries and for the collection of accounts.

13. *The banking function.*—Commission merchants often finance the manufacturer's operations by advancing money to the producer prior to the sale of the produce. In this way they acquire an important interest in the manufacturer's business and are able to dictate styles, packings, and other matters of manufacturing policy. The justification of this control is the justification of a banker who has a financial interest in a manufacturer's operations. It is justified also by the fact that the commission merchant, being close to the market, can translate buyers' requirements into terms of manufacturing procedure.

14. *Commission merchants who are not commission merchants.*—Trade usage takes little account of legal meanings of titles. It continues to call a man a commission merchant, even tho he may never see the goods he sells, sometimes even when he does not sell the goods, but merely collects the payment for them on

behalf of his principal, or when he acts strictly as a factor by merely advancing money to the manufacturer and then reimbursing himself by collecting from the manufacturer's customers. Commission merchants sometimes retain the title even when they have become independent traders, buying and selling on their own account, and have ceased largely or entirely to do business on a commission basis. This inaccurate trade usage of terms means only that marketing procedure is changing very fast, and that the customary use of names and terms has not kept pace with the actual business changes that are going on all the time. Perhaps we need no other evidence that established marketing channels are not necessarily permanent channels, and that he who would seek the shortest and most economical way to a market must scan closely even traditional practices that seem to be strongly grounded in his industry.

15. *The broker.*—A merchandise broker is one who usually sells without having goods actually in his possession. Normally he acts in the name of his principal, giving a memorandum of the transaction to buyer and seller, and, after the order is filled, drawing his commission from the seller. Like a commission merchant, he is largely an independent operator, seeking trade where he can find it and functioning chiefly as a go-between to bring buyer and seller together.

16. *The "regular" broker.*—Merchandise brokers may be roughly grouped into two classes. First there is the broker who is the regular appointed sales

representative of one or more manufacturers, appointed to a specific sales territory and doing business in all respects as a direct sales representative of the manufacturer, except that he finances his own operations. This type is common, for instance, in grocery lines. A so-called broker may obtain for a given territory exclusive representation for several lines of goods—say a brand of baking soda, a brand of condensed milk, a line of laundry soaps, and other non-competing items. If he carries no stock he may be literally a broker. If he carries a consigned stock he is literally a commission merchant, altho he may call himself a broker. And if he buys any part of his stock outright and then sells it again, he may still call himself a broker, altho he has few of the functions of one. A merchandise broker may sell either to jobbers or to retailers. There are many of these middlemen selling to the jobbing trade, who, while known as brokers, and sometimes as manufacturers' agents, are really outright traders in their own behalf. Trade usage of the word broker is as loose as in the case of agents and commission men.

17. *The "casual" broker.*—A second type of broker may be called the casual broker. Instead of regularly representing any manufacturer, he makes it his business to seek out a buyer, ascertain his requirements, and then find a seller who is willing to fill the order. Normally he gets his pay in the form of a commission from the seller. All businesses abound with brokers of this type. They are found in the coal

business, in the dry-goods business, in the printing and lithographing business, and in nearly every other field. Occasionally they perform no service which manufacturers or buyers could not equally well perform for themselves, and find their opportunity only because sellers or buyers are not alive to the possibility of helping themselves. More often they perform a real service, well worth its cost. There may be a real shortage of merchandise, and a specialist may be needed to search out sources of supply. There may be many small producers in the field, whose varying ability to serve a particular buyer can be economically learned only by the skilful investigations of a specialist in the industry. Or the broker, in the printing and engraving business, for instance, may justify his activities by submitting designs for advertising material, which, when accepted by a buyer, he places with some printer and then collects from the printer a commission in payment for his services.

18. *How cotton goods are sold.*—The textile trade is the stronghold of special factors in marketing, and their functions can be best studied in connection with textile selling operations. They are found in the cotton, woolen, and silk industries. Because cotton marketing presents some features not associated with woolen or silk, we shall confine our description of textile operations to a brief survey of the sales channels for cotton piece goods. These sales channels are not always the same. Altho the longest possible system

of distribution is described, it should be understood that corners are often cut and that not all of the available middlemen are always used.

19. *The mill agent.*—Cotton piece goods are usually sold by the New England and Southern mills "in the gray"—that is, the natural color of the spun cotton, unbleached, undyed, and unprinted. These gray goods may first go from the mill to the selling house or mill agent, who, as we have seen, probably handles the entire output of one or more mills. Ordinarily he does not actually have possession of the goods, but concerns himself with their sale for the account of the mill. In addition to selling the goods, he may render the mill financial assistance, by indorsing the mill's notes or by guaranteeing its accounts, and sometimes by advancing money against sales that have been made by the agent.

20. *How the broker functions.*—The second step in the marketing process may be from mill agent to broker. The broker is a mere go-between, who actually buys no cloth and accepts no responsibility for its sale. He finds a purchaser who has need of cloth of a particular sort, and puts him in touch with an agent or manufacturer who has that particular cloth for sale. Thru his activities, the purchaser is often able to find more readily the goods he wants, and the manufacturer or mill agent economizes in time spent in seeking customers. Brokers are particularly prominent in the activities of the Fall River cotton

mills. In the North, they usually act directly for the mills, while in the South they more frequently act for mill agents.

21. *The converter.*—The broker's purchaser may be a merchant converter. The term converter is used in several senses, but usually it is applied to a class of merchants who buy cloth in the gray, have it converted (bleached, dyed, or printed) and then sell it to the next factor in the marketing process. The converter either gets an order for cloth having a particular color or pattern before he buys gray goods for conversion, or he devises the patterns himself and buys the cloth and has it converted at his own risk. For the actual bleaching, dyeing, or printing, the converter sends the cloth to a converting establishment that offers him the best terms or that makes a specialty of the kind of finish he desires. The bleaching, dyeing, or printing establishment does the mere mechanical work for the merchant converter, returning the finished cloth to him to be sold. Converters of the merchant type are becoming increasingly important in the cotton industry. They relieve the mill and the finisher of a certain amount of risk; they bring added capital into the business, and, by carrying their customers' credit, enable the mills and the finishers to turn their capital and get their profit more quickly.

22. *Remaining factors in the chain.*—The merchant converter may sell the finished piece goods either to manufacturers of shirts, dresses, and other manufactured cotton goods, or to wholesale dry-goods houses

which handle the material in the piece. If the sale is made to manufacturers of cotton garments and other kinds of cotton products, these manufacturers in turn may sell to wholesale dry-goods houses or other types of wholesale establishments. The wholesale house or jobber in dry-goods is an important link in the distributing chain. In an earlier day great wholesale dry-goods establishments in New York and other eastern cities largely dominated the American market. Today the center of this industry has moved westward, and, in common with the movement in most jobbing lines, the smaller local jobbers have largely displaced in influence the jobber operating on broad sectional or national lines.

The jobber sells to the retailer of dry-goods or of the products made out of the finished cotton piece goods, and the retailer completes the chain by selling to consumers.

23. *Variation in marketing procedure.*—As we have suggested, this long chain of distribution is common altho by no means universal in the cotton industry. A mill may sell direct to a broker, a merchant converter, an actual finisher, a wholesaler, a manufacturer of cotton garments, or even to a large retailer. The great department stores not infrequently have direct contact with one or more mills and buy gray goods for converting in their own finishing establishments. A finishing establishment may act as merchant on its own account, buying direct from mill, mill agent, or broker, and selling to any one who will

buy. A manufacturer of shirts may buy direct from a mill or may even own mills of his own, and he may control his own finishing plants. Wholesalers may do their own converting. The possible alteration or combination of sales channels is almost endless. It is nevertheless true that the great majority of all gray goods are sold by the mill either to a selling house, thru a broker, or to a merchant converter. The special distributing factor is strongly entrenched in the industry, and it can not be denied that he usually serves a good purpose and performs economical and necessary functions.

24. *The auction.*—The only remaining special marketing factor to be considered is the auctioneer. Formerly mill agents for cotton and woolen goods often sold their goods at auctions, which were attended by jobbers from all over the country. Very little of this still exists, tho carpets and rugs are still sold in this way to some extent. The auction continues to hold a prominent place in the marketing of fruit, tobacco, and some other agricultural products, but it seems to have largely served its day in helping to move manufactured goods.

The auction was particularly valuable in setting a price based definitely on the relation of supply and demand at a time when there were no quick and cheap methods of communication and transportation. Today with every newspaper in the country publishing daily prices on staple goods in the country's more important markets, the auction is no longer needed to serve this purpose.

The development of branded lines of known value has removed the products of many mills from the staple class. When cloth was just cloth, the products of many mills could be lumped together and sold readily by auction. With the growing demand for special goods for special purposes, the relation of buyer and seller has become more intimate and there has arisen a need for a type of middleman more discriminating than the auctioneer can ever be in his efforts to bring a buyer for a special product into contact with the one manufacturer who can most quickly and most economically give him exactly the product that he needs.

REVIEW

Name some kinds of special distributing factors, describe the work they do and indicate the lines of industry in which they serve.

What justifies the existence of the special middlemen?

What is the function of the agent and in what lines is he usually found?

Describe the use of the word agent to designate two kinds of middlemen.

Describe the functions of a commission merchant.

What is a merchandise broker? Into what two classes are they divided?

Discuss the work of (a) the mill agent, (b) the broker, (c) the converter.

CHAPTER VIII

COOPERATIVE BUYING GROUPS

1. *Purpose of cooperation.*—A form of competition that is old in years but young in importance in this country is that which arises when groups of consumers or of retailers band together to do for themselves what independent middlemen would otherwise have to do for them. This movement is typified by the cooperative store operated without profit, owned by a group of consumers and run exclusively in their interest. It is also typified by the cooperative wholesale buying and distributing establishment, owned and operated by a group of retailers who seek to perform the jobbing function for themselves without assistance from independent wholesalers. The cooperative movement has but one purpose—to reduce prices by eliminating all of the profit and part of the expenses of the middleman. Carried to a logical conclusion, its ultimate effect would be to eliminate the independent middleman entirely. Altho the movement has developed very slowly in this country, it has made tremendous strides abroad. Its inherent elements of strength, emphasized by changing social and industrial conditions in the United States, suggest the possibility of development here that is of vital im-

portance both to distributors and to manufacturers.

2. *Cooperation abroad.*—The modern cooperative store idea probably started in Rochdale, England, in 1844. Twenty weavers banded together to run their own grocery store. The beginnings were small, but they were successful. From this tiny start has grown the modern cooperative movement thruout the world. In the United Kingdom one of every four families today is said to get most or all of its food supplies from cooperative stores. The retail cooperatives have banded together into wholesale societies that exercise far-reaching industrial power. Some of them own tea and coffee plantations, operate their own factories, and control steamship lines.

On the Continent the cooperative idea has developed astonishing strength. Its chief stronghold is in Denmark, where the cooperatives control half of the total business in foodstuffs. In Germany one out of every five families is associated in some cooperative buying plan. In France the ratio is one in ten. In Russia, before the experiment in universal communism, the cooperatives were very strong. All over Europe the idea is taking firm hold of the people. It is a movement that can not be ignored.

3. *Extent of cooperation in United States.*—In the United States the early cooperative experiments were inspired by the Rochdale success. In 1844, the same year in which the Rochdale pioneers led the way, a tailor in Boston started a buying club for the New England Association of Mechanics and Work-

men. This developed into the New England Protective Union and the American Protective Union. It operated more than 350 stores and its annual sales ran as high as $2,000,000. It lasted only a few years. All of the stores failed or reverted to private ownership. During the latter part of the nineteenth century various other industrial groups were active in establishing cooperative stores. Prominent among them were the Grange (Patrons of Husbandry) and the Farmers' Alliance. Altho some of the stores started in the last century by farmers' and mechanics' organizations have survived, most of them succumbed to the adverse influences that have retarded cooperation in America. By 1903 it was estimated that there were only 200 cooperative stores in the United States.

Of late years the movement has gained new headway. In 1922 in the United States there were approximately 3,000 consumers' cooperative retail stores, dealing chiefly in food products, supported by some half-million consumers, and doing a business of $200,000,000 a year. Despite this recent development, the movement has not yet touched the lives or interests of the overwhelming majority of the American people. It is pertinent to inquire into the reasons for the great success of cooperation abroad and its relative insignificance here.

4. *Cooperation a class movement.*—In Europe cooperation is a class movement, generally an expression of the workingman's or the farmer's class consciousness. In the United States the wage-earner of to-

day is the capitalist of tomorrow. No one is debarred from rising to any heights to which his mentality and ability can carry him. There are no fixed classes except in the imagination of foreign-born agitators who seek to impose upon this country the hopelessness of a class struggle that is alien to all our ideals and traditions. Cooperation in buying to give greater strength to one class in its warfare with another has made little progress here.

5. *Influence of low wages.*—Wages always have been relatively higher in the United States than in most other countries. Standards of living have always been comparatively high. In the past, wages abroad have often been so low that workingmen would have been shut off from many of the relatively necessary things of life if they had not been able to buy them for less money than was charged by independent dealers. In America the pinch of poverty has not necessitated cooperation as it has in many countries across the water.

6. *Need of loyalty.*—The success of a cooperative movement depends primarily on the loyalty of its supporters. Unless a cooperative store can be assured of the constant trade of a definite group of people, its success is doubtful. In Europe the incentive to loyalty is provided by an almost universal class consciousness. There is no such incentive here. We are individualistic in politics and in industry. The influx of immigrants may change this condition, but the tradition of the pioneer whose isolated family

led a self-sufficient economic life is still strong in all phases of our national existence.

7. *Effect of agricultural conditions.*—In Europe farms are small, and the farmers live close together. This encourages community action in buying as well as in other ways. Here the size of our farms, and before the days of automobiles at least, the relative isolation of farmers brought country-dwellers into infrequent contact with one another. This increased the trend toward individualism rather than toward cooperation. Quickened means of communication and transportation are largely responsible for the developing spirit of cooperation among farmers. There is great instability in our farm life; farms are not as a rule handed down from one generation to another; they are worked frequently by renters who have no real stake in the land and have little interest in building up cooperative societies, the greatest advantages of which must usually come only after a considerable period of planning and building.

8. *Kinds of cooperative buying.*—Cooperation for the purpose of reducing prices by eliminating the profits of one or more classes of middlemen takes many forms. These types of cooperative movements may be divided into two main classes, retail cooperation and wholesale cooperation. Retail cooperation means the banding together of consumers to do for themselves what the independent retailer would otherwise have to do for them. In wholesale cooperation, there is a banding together of retailers to perform the

jobbing function for themselves. There may be a third type of cooperation—combination among jobbers to obtain more favorable relations with manufacturers. As a form of cooperative buying, this third type is seldom found.

9. *Retail buying exchanges.*—The most simple form of retail cooperation is the consumers' buying syndicate. A group of consumers pool their purchases in order to buy direct in quantities from manufacturer or jobber and to get the lowest possible prices for the quantity purchased. If a group of this sort carries on more or less regular activities, it is usually known as a buying exchange. There are some very successful buying exchanges in agricultural communities. An officer of the exchange may mail regularly to the members quotations on staple lines. Usually each member pays cash in advance; the money is deposited in a designated bank, which will furnish a certificate that the money is there, awaiting the shipper's draft. The orders and certificates are forwarded to the manufacturer or dealer who attaches a draft to the bill of lading. Payment is made thru the bank where the funds are on deposit. The exchange in this way assumes no financial responsibility for the order. The advantages to the members are low unit prices and savings in freight thru consolidated shipments.

10. *Cooperative stores.*—The cooperative retail store is the more common form of retail cooperation. If it follows the Rochdale model, it sells goods at the

regular market price, dealing with any one who will buy, but at the end of a given period returning a rebate or dividends to its members based on the amount of their purchases. Sometimes it pays to non-members a dividend smaller than the one paid to members. Usually it sells only for cash. Occasionally it restricts sales to members only. Each member has an equal vote in the control of the store, regardless of the amount of his stock holdings. Some cooperative stores ignore regular market selling prices; they sell at cost plus a fixed percentage to cover expenses of operation. Most of the existing cooperative stores in the United States deal only in foodstuffs. A few of them handle simple staples in other lines. Books and other supplies for students are sold by cooperative stores in college communities.

11. *Possibility of low selling prices.*—There are three elements in a retail selling price—cost of the goods, expense of doing business and net profit. A single cooperative store can buy goods no more cheaply than a privately owned store. In fact, it is likely to have difficulty in getting wholesale prices from many sources of supply. Nor is it likely to do business any more cheaply than a privately owned store, even tho it may omit credit accounts, delivery, and other forms of service. So far in America we have not proved in every case that community activity is as efficient as individual activity spurred on by the incentive of profits. The cost of doing business in many cooperative stores is higher than the expense in

ordinary stores. The chief possible saving to the cooperative, therefore, is the net profit of the retailer. In many lines this is very small—so small that the increased expense of doing business in the cooperative stores often entirely swallows it. As the sole purpose of the cooperative is to lower prices, it is natural for retail cooperators to group their stores together so as to obtain better wholesale prices and to eliminate the jobbing profit. Not until this is done is the cooperative ordinarily able to make its net selling prices sufficiently low to retain the support of its members.

12. *Cooperative wholesale societies.*—There are several types of wholesale cooperation in the United States. One is combination of cooperative retail stores. There are several national and sectional wholesale societies of this sort. The largest has a national organization with wholesale branches in various cities thruout the country. In some instances strong central control is exercised; active propaganda is carried on to encourage the formation of additional cooperative retail store members, and these stores are required to conform to the rules of the wholesale society. In other instances, the wholesale organization has more of a federated nature; the member stores operate independently, using the wholesale society only for the making of mass purchases.

13. *Cooperation with producers' organizations.*—Some cooperative wholesale societies admit to their membership not only retail cooperative stores but also

farmers' organizations designed to get better prices for their members' products. Such wholesale societies act both as selling and as buying agents. Wholesale cooperatives often form connections with cooperative packing plants, cooperative dairy organizations, cooperative factories, and other cooperative producing groups, acting as the exclusive outlets for their products.

14. *Cooperative jobbing houses.*—Privately owned retail stores are more and more looking toward wholesale cooperation as a means of increasing their ability to compete with chain stores and other retail establishments that have the advantages of size and large buying power. A common form is the wholesale buying syndicate—several stores combine their purchases of staples, thru some member of the group or thru a central office. The syndicate may or may not maintain a warehouse for the receipt and storing of its group purchases. A further development of the retail buying syndicate is the regularly established wholesale house, owned exclusively by the retailers whom it serves. One such house has over one thousand members in a single city. Cooperative wholesale syndicates or jobbing houses may buy only on requisition by the members, or they may buy for stock and take advantage of a favorable market, just as any independent jobber does. Most of them sell only for cash. They have no advertising or selling expenses, other than the cost of mere announcements to their members and an occasional representative who is an order-taker

rather than a salesman. Ordinarily they have no delivery expenses.

15. *Wholesale semi-cooperation.*—A final form of wholesale cooperation is typified by the relatively loose organizations of independent retail druggists who are served by the United Drug Company (Rexall Stores) and the American Druggists Syndicate. The central organization supplies its members with products of its own manufacture, and in some instances backs them with national advertising. Similar organizations are found among jewelers, shoe dealers, tobacco stores, and in a few other fields. Retail members of organizations of this type may buy only part of their stock cooperatively.

16. *Cooperative strength.*—As has been pointed out, the strength of cooperation abroad is derived from its political as well as from its economic aspects. To an extent, it has the same source of strength in America. The most successful cooperative stores are those that appeal to class feeling. To the extent that they can do this, they have an element of competitive strength denied to the privately owned store. Sentiment, however, is a poor basis for permanent business success. The class appeal alone can not bring success. Unless cooperation can give the consumer satisfactory service and actually lower prices, it has no excuse for existence and can not survive. When cooperation does lower net selling prices, it does so because of (1) management economies brought about usually by eliminating credit, delivery,

and other customary forms of service, (2) elimination of profit, and (3) in the case of wholesale cooperatives, by massed buying.

17. *Cooperative weakness.*—Cooperative buying groups have important elements of competitive weakness. The weaknesses can be overcome, but they are always potential sources of difficulty in holding trade. The first element of weakness is one that is common to all cooperative enterprises—the relative ineffectiveness of cooperative management as compared with the more efficient management which derives its incentive from the hope of profits. Successful merchandising demands the taking of risks. The hired manager of a cooperative is less inclined to make bold merchandising strokes than the profit-taking distributor who is responsible only to himself for results. Again the hired manager may be less watchful of expense leaks than the individual proprietor. That these are real obstacles to success in many cases is proved by the high mortality among cooperative stores in the United States.

Other sources of weakness are found in the restricted service of cooperatives. If the cooperative deals only for cash and makes no deliveries, its membership must always exclude those who need or are willing to pay for credit, delivery, and other forms of service. Most cooperatives handle limited lines of goods. They can afford to stock only items in constant demand by most of the members, leaving privately

owned stores to satisfy the members' requirements for less staple lines. Consistent loyalty to the cooperative is difficult to obtain. It takes a high degree of idealism for a member to resist the temptation of bargain prices elsewhere, or to give his future dividend from the cooperative equal weight with a present advantage to be gained by transferring his trade to an establishment where prices, assortments and service are presented to him in an attractive way. Finally, many cooperatives have difficulty in entering into direct buying relations with manufacturers, and with the result that patrons of cooperatives are at times unable to buy the particular brands of goods that they desire.

18. *The manufacturer's problems.*—The activities of cooperatives present a difficult problem to the manufacturer. Shall he sell to cooperatives on the same basis as that on which he sells to independent dealers? To the extent that he is left any choice in the matter by the Federal Trade Commission, court decisions, and legislation, his decision must be based on a careful evalution of the conflicting factors in the problem. He wants all the trade he can get, but he wants, too, to avoid disrupting his market and to retain the support of other dealers. If a manufacturer sells to a cooperative and the cooperative cuts prices, he may find it difficult to sell to regular distributors. If he sells to a buying syndicate, he is likely not to find the competing local dealers cordial toward him or

his goods. If he sells to cooperatives, what price shall he charge them? The following suggestions may be found applicable to the majority of cases:

(a) If a retail cooperative maintains an established store, performing the ordinary functions of creating time and place utility for manufacturer or jobber, it is entitled to regular wholesale prices.

(b) If a retail buying syndicate, without an established store, seeks to buy direct from manufacturer or jobber, it may be entitled to a price based on quantity, but it is not entitled to a wholesale price which takes into consideration not only size of the unit sale but also the stock-carrying service and selling aid of the ordinary retail store.

(c) If a group of retailers, cooperatively or on some other basis, control their own wholesale establishment, which performs the regular jobbing functions of storage, credit carrying, intensive covering of the territory, and breaking up of large shipments into small ones, the wholesale cooperative is entitled to regular jobbing discounts, regardless of who owns its stock or the way in which it is controlled.

(d) If a wholesale cooperative or buying syndicate offers to the manufacturer a service less than that offered by the ordinary jobber, it is entitled only to a jobbing discount measured by the extent of its own service to the manufacturer compared to the kinds of service for which the regular jobbing discount is intended to pay.

REVIEW

What is the aim of the cooperative store?

Trace the growth of the cooperative movement abroad and in the United States.

Why has the movement made such strides abroad as compared with its slow progress in the United States?

Define (a) retail cooperation, (b) wholesale cooperation, (c) jobber combinations.

Describe some forms of retail and wholesale cooperation.

What is the purpose of the wholesale buying syndicate?

Name some of the points of strength and weakness of the cooperative movement.

How should the manufacturer be guided in his dealings with cooperatives?

CHAPTER IX

STUDY OF THE PRODUCT

1. *Necessity of a marketing plan.*—Neither advertising nor salesmen can bring success to a business unless its selling plan and policy are right. Selling goods, like winning battles, must be planned in advance. A factory or a store with something to sell must, before the selling starts, study trade relations, the product, the market, and the methods of reaching the market. These studies are unavoidable prerequisites to a carefully planned selling procedure. Opposed to a well-planned procedure are the hit-or-miss, unplanned trials of this scheme or that—the vacillating, wavering attitude of the man who does not know exactly what he wants to do or how he wants to do it, and who opens his mind and his purse to every will-o'-the-wisp scheme that is suggested to him by those who want his money. The manufacturer or merchant who tries to sell in that way has only a gambler's chance to succeed.

Even the most intensive study and planning preparatory to marketing or merchandising do not eliminate a large element of uncertainty. Human judgments are fallible, and deductions from investigations and study of the marketing problem are always sub-

ject to the judgments of the individual. The purpose of careful planning in advance is to reduce, altho not to eliminate, the risks always present in a business enterprise. These risks are necessarily so great that one who does not do all in his power to reduce them can not be thought of as conducting a business—he is merely playing a game of chance with the odds against him.

2. *Importance of trade relations.*—In developing a selling plan, the study of trade relations is first in importance. This study enables the man with something to market to know the various ways of reaching the people who might buy his goods, and it suggests a solution of some of the many vital problems involved in the manipulation of the complicated links in the chain of distribution. Because trade relations constitute the largest single problem of the average manufacturer or distributor, and because failure or success in selecting and using the channels of distribution is one of the important causes of business failure or success, the subject of trade relations has been placed first in this Text. It has been treated in detail in the preceding chapters.

3. *Scope of the discussion.*—Besides a study of trade relations, there must be study of the product, study of the market, and selection of methods of reaching the market. In the present chapter and those that follow there is first a summary outline of the many points to be given consideration, with later detailed treatment of some of the more important of

them. The enumeration of points to be investigated is not intended to be inclusive of everything that might be studied in connection with the problems of any particular business. To do so would enter into a discussion of the almost countless refinements of research methods appropriate when problems of specific business enterprises are under consideration. It is sufficient here to suggest some of the classes of things that should be considered—to point out guide-posts which will be useful to the average investigator of commercial practices and possibilities.

The Text does not discuss the technic of investigations or the sources from which information may be obtained. Research technic has not yet been developed as an art; any one with a mind to find out the necessary things to help him build a logical selling plan can readily find ways of seeking out the things he needs to know. Sources of information for the many thousands of diverse selling problems are numerous. In government statistics, trade publications and other printed sources there is a wealth of helpful data, which should usually be supplemented by field investigations carried on by mail and in person.

4. *Analysis in business.*—Analysis in business is not new. It has always been applied in the productive end of industry. Managers seldom decide arbitrarily that such and such a change shall be made in their plant or their product and forthwith order it done. They recognize that mechanical problems must be studied and analyzed and they usually reserve

decisions until competent engineers have done their part of the work. Yet the same managers who study their manufacturing problems wisely often complacently order large expenditures in new sales activities without study, investigation, or analysis, merely on the strength of personal opinion based on inadequate information.

Such procedure may be excused by pleading the lack of standards in marketing and merchandising, but the plea is not tenable. For every business there are certain standards; investigation will bring them to light and, if no attempt is made to ferret them out, the chances of success are no better than they deserve to be. It is an offense against common sense to put money into undigested marketing schemes. The making of a good marketing plan is chiefly a matter of common sense, and common sense is only another name for logical thinking based on exact knowledge of all the pertinent facts in the case.

5. *Manufacturer's point of view.*—The point of view in the present discussion of study of the product, of the market, and of methods of reaching the market is chiefly that of the manufacturer. His problems include those of all distributors as well. The wholesaler has many of the same marketing problems as the manufacturer. Special problems of retail and wholesale merchandisers are discussed in later chapters in the Text.

6. *When analysis should be made.*—Three occasions should prompt a manufacturer or distributor to

make careful analysis of his marketing problems: (1) before he begins business; (2) when he wishes to add advertising to his other selling activities and finds it necessary to investigate and chart facts hitherto neglected; and (3) when he awakens to the necessity of greater competitive efficiency, and decides to abandon hit-or-miss procedure and to substitute for it carefully considered policies based on known facts. We shall consider chiefly the man about to start in business, because the things to be considered then are inclusive of all that might be studied later.

7. *Four functions of business.*—The relation of preliminary study to marketing policies is shown by the following chart:

A study of	Determines the	Which, in turn, depend on
The Product The Market The Trade Channels	Sales and Advertising Plans	Finance, Production, Administration

Selling, altho one of the four great functions of business, can never be studied or practiced alone. To be successful, it must be adjusted to financial limitations and requirements, it must never lose sight of its close partnership with production, and it must be so closely interwoven with administrative policies that the selling procedure will honestly and accurately mirror the ideas and the ideals of the men who control the business. Many sales efforts have failed when

they were not based on due regard for financial consideration, when the optimism of the sales force was founded on something less substantial than the cold facts of production possibilities, or when the sales or advertising manager did not properly interpret the spirit and purpose of the business whose goods he tried to sell. Finance, production, selling, and administration must work as sympathetic partners; otherwise even the most carefully planned selling efforts will be ineffective.

8. *Two purposes of product and market analysis.*—A study of the product and of the market results in finding out things about the business which (1) help in selecting methods of reaching the market and in making proper sales and advertising plans and policies and (2) help the seller to select the most effective selling points for his product. The things to be studied are not always the same for these two different purposes. We shall outline first the nature of the investigation of the product which has for its purpose the making of plans to reach the market.

9. *Making sure of the product.*—At the outset there should be tests to prove that the product is right, that it will do the things the manufacturer wants it to do. Rushing into a market with an untried product is dangerous and often expensive. Unless the product is right, even the most carefully planned sales methods will fail. There should first be technical tests in the laboratory or shop to find out as far as possible that the product will stand up under

usage or otherwise accomplish its purpose. The manufacturer of a well-known food product experimented for years to get it exactly right. Literally hundreds of times the company thought the product was ready for the market, only to find after exhaustive tests that changes were still necessary. Manufacturers of automobiles and automobile equipment have found by costly experience the value of subjecting their products to the most searching tests that could be devised before offering them to the public.

Technical tests are not alone sufficient. There should also be practical tests to prove the product will operate in the hands of the average user as well as it operates in the laboratory. Almost no expenditure of time or money is too great at the outset to insure the manufacturer against the disasters likely to follow the premature exploiting of an unproved product.

10. *Effect of raw material prices.*—Conditions of manufacture should receive careful study. Among them is the problem of raw materials. As far as selling policies are concerned, the most important consideration affecting ingredients is the degree of stability of prices. Relatively steady selling prices are advantageous, particularly if the product is to be advertised and sold thru middlemen. If raw material costs are unstable, selling prices of the finished product must be set so as to give a profit even when the raw material market is abnormally high. Packaged food products illustrate this situation. The manufacturer must be a close student of raw materials, in

order to anticipate conditions that may vitally affect his gross profits and the margin that he may safely allow for selling expenses.

11. *Who controls the raw material?*—Does the manufacturer control a supply of raw materials or must he depend on others for it? In a stable or rising market the manufacturer who owns his sources of raw materials may more safely plan long in advance with respect to selling prices, competitive activities and expansion than the manufacturer who must buy his raw materials in the open market. When the market is unstable or declining, the manufacturer owning his sources of supply may be at a disadvantage; the inability to take advantage of low market prices may force a conservative marketing policy.

12. *Capacity of the plant.*—Does plant capacity require limited selling efforts? If the output is small, can it be more economically sold locally or distributed widely among scattered users? To what extent will plant capacity permit sales efforts on a national basis? If the business is an established one, increased selling activity is absolutely dependent on the opportunity to get more out of the present plant, or on the opportunity to increase the factory equipment.

13. *Manufacturing costs.*—The cost of manufacture is one of the starting points in the outlining of a selling plan. It is true that goods are usually sold at the price they can be made to command, instead of on a mathematical basis of cost-to-make plus cost-to-sell plus amount of profit desired. The selling price

must, however, cover all of these three items. If the selling price is largely fixed by competition, the maximum amount that can be spent for selling is definitely fixed by the cost of manufacture on the one side and by the minimum profit that will be acceptable on the other. It may seem unnecessary to urge manufacturers to base their selling efforts on a definite knowledge of costs. Yet this will continue to be necessary until a knowledge of exact costs in business is the rule rather than the exception as it probably is today.

14. *Financial considerations.*—What part of the capital of the business can be used for marketing? What increased production will the present capital provide for? If more capital is needed, can it be economically obtained? Will net profits from increased output and sales be sufficient to justify increased capital? Financial considerations should be uppermost in the mind of the seller. The owner of the business is subject to "the tyranny of the balance sheet." The sales manager must be equally controlled by its influence. The rate of return that must be paid, the willingness of stockholders to await returns until an ambitious sales plan may have brought its expected results—all these things and many others will be carefully considered by the manufacturer who gives due regard to the basic importance of finance in all industry.

Assume the existence of a business with large and readily available financial resources. It can manufacture goods largely for stock to meet seasonal demand. It can establish its own wholesale distributing points thruout the country and thus enable retailers to buy frequently and conveniently. It can grant long credits if competitive expediency requires them. It can experiment with styles and kinds. It can make a large investment in advertising with the knowledge that the favorable public opinion it seeks to build up may make itself felt only after a considerable period. It can literally select its selling methods from the whole list of available practices. A business with small capital, on the other hand, may be forced to do what, with more capital, it might not elect to do. It may find it necessary to deal thru jobbers, because it can not afford the selling organization to reach retailers or the risk of loss in handling retail credits. In a seasonal industry it may be unable to manufacture for stock and, when depending on uncertain advance orders from dealers, it may be unable to run its plant continuously or economically.

15. *Bulk or package sales.*—What is the nature of the product? Is it sold in bulk or in packages? If the product can not be identified in some unmistakeable way, there may be no possibility of effective advertising. If it must be sold without identifying marks and the sale is made thru middlemen, the transactions with dealers must be largely on a price basis. In a competitive market where price is the chief weapon, the selling methods are very different from those designed chiefly to build consumer good-

will and consumer knowledge of the name and reputation of the product.

16. *What is the product for?*—Is the product intended for use in manufacturing, is it for equipment for some other product, or is it for consumption without regard to other processes or products? A product used in manufacturing, must largely be sold direct. Formerly it was thought not to be subject to advertising. Altho this belief has been disproved by the advertising success of manufacturers of white lead, special kinds of steel and other products, the manufacturers of goods that are consumed in other manufacturing processes has an admittedly difficult task in arousing public interest in his product. If the product is for equipment purposes, sales channels will vary with the other products on which it is used. Manufacturers of automobile parts sell usually directly to makers of automobiles. Here too the advertising problem is difficult. If the consumer buys an automobile as a whole, instead of a set of bearings, his interest in the bearings can not be expected to be as great as it would be if he paid his money for the bearings alone. The tremendous power of advertising is perhaps illustrated in no better way than in the success of manufacturers of equipment who have built large sales on the indirect patronage and good-will of the ultimate consumer. Products intended for final consumption without change in form and without relation to other products are not subject to the limitations surrounding the marketing of goods for manufacturing or for equipment. The producer of consumption goods has the whole range of selling procedure from which to choose.

Irrespective of the way in which the uses of product may affect the selling policies, it is evident that the several uses to which the product may be put, the various services which it may render the consumer, are among the most important points to be covered in the study of the product. No other analysis can be more useful than the consideration of these uses and the adequacy of the product to serve them. The effort to ascertain *all* of the uses which it may serve sometimes reveals uses that have been entirely neglected. Effective publicity and sales effort are often centered upon what are termed new uses for old products.

17. *Changes in the product.*—Must the product be improved before large future sales can be assured? A product good enough to get moderate business may not be good enough to build a really large business. Is the product in danger of being superseded by others? What are the qualities lacking that leave open the door to new competition? Is the market fairly well saturated with the product in its present form, and must some marked change be made to justify largely increased business? Changes in the product are often the first step in an intensive effort to get more customers. A safety razor manufacturer with an established business on a competitive type of razor gave his business a fresh impetus by radically changing his method of construction and his compet-

itive selling appeal. The first manufacturer to put all his sales effort behind his shaving cream reaped a rich reward in a market where he would have had difficulty in getting a foothold in competition with the established manufacturers of shaving sticks.

18. *Possibility of standardization.*—A fertile source of inquiry is into the possibility of standardizing product where there is a long line of sizes and styles. It is probably accurate to say that there is scarcely a manufacturer who could not advantageously reduce the number of items in his line. It is obvious that restriction and standardization of output result in increased manufacturing efficiency and decreased manufacturing cost. It should be equally obvious that they result in increased selling efficiency. Generally speaking, it is necessary to satisfy demand but it is not necessary to load a line with products that add to confusion and expense and that result in scattered sales effort. The manufacturer, who makes what he can make and sell economically and effectively and who does not bow to expediency by adding lines and styles at the whim of scattered individuals, will ultimately be in a stronger position than the one whose desire for present business is such that he burdens himself with a line consisting chiefly of relatively unprofitable or inactive numbers.

19. *Can the product be sold?*—Between study of the product and study of the market lies a field for investigation that reaches out and overlaps on each side. This is the study of the product in its relation

to demand. Simultaneous with the first plan for the product in the manufacturer's mind should be the thought, "Will the public want it? Is it worth while to make it? Will there be sufficient demand for it to warrant putting time and money into it?" The answer should not always be in the affirmative. Millions of dollars of hard-earned savings are invested in the products of inventors' dreams, which, for all their ingenuity, have but little practical value. If the answer is in the affirmative, at some stage in the plan there must be careful consideration of the points which follow.

20. *Nature of demand.*—Is the demand expressed or unexpressed? Do people now realize that they want the article, or must they be educated to their need of it? If the product is one of a number of similar products, the manufacturer will be helped by the selling effort of others, and he ordinarily will have precedents to guide him in selecting the most effective selling route. If he is a pioneer, the problem is much more difficult. The manufacturer of a new soap will find satisfactory routes to the market already laid out for him; he can survey the practices of others and bring competitors' experiences to the solution of his own problem. The first manufacturer of a dictating machine, on the other hand, had a serious marketing problem to solve before he began to get returns on his investment. When demand is latent and unexpressed, the manufacturer must expect slow growth and he must bring to his aid all the results of careful

study of the product and the possible market so as to reduce as far as he can the waste of false starts and the uncertainty of untried methods.

21. *Brand consciousness.*—Closely allied with the nature of demand is the degree of brand consciousness in the market. Is the sort of thing the manufacturer is producing asked for ordinarily by brand name, or does the consumer purchase without regard to the name of the manufacturer? Soda crackers were formerly sold out of a barrel. A courageous manufacturer took them out of a barrel and put them into a box. He established a brand name which changed the buying habits of a nation and blazed the trail for all cracker manufacturers who have followed him. Many products are still sold "out of a barrel." The degree of brand consciousness chiefly affects selling methods by limiting or enlarging the possibilities of advertising. This matter is considered in the chapter on National Advertising and the Dealer.

22. *Influence of prejudices.*—Are there any consumer prejudices which the manufacturer must take into consideration? There is some prejudice against the activities of house-to-house solicitors. The producer selecting that method of selling must expect difficulty in breaking down this prejudice. There is a prejudice against some selling prices. A commodity in some fields priced at fifteen cents carries a handicap in competing for popular favor. People are prejudiced against certain kinds of canned foods; wrist watches before the Great War could not be sold

largely to men; there are deep-rooted prejudices in favor of the accepted kinds of tooth-brushes, towels, and tennis racquets. Methods of packing manufactured goods may bump against traditional prejudices. The shape of a carton, the color of a label, the credit terms of the manufacturer—these and a host of other things may jar on the sensibilities of the customer. A manufacturer may set out with the definite purpose of overcoming prejudices, but he should at least do so with his eyes opened to the true situation by a careful survey of the degree of receptivity that he is likely to find in the market.

23. *Is the product technical?*—Is the product one that can be readily used or operated by the consumer, or is educational work necessary? If the method of consumption or use is obvious, the manufacturer can, if he chooses, sell thru jobbers and retailers. If he must instruct each consumer and follow up the instruction with inspection and service, he may find it advantageous to sell direct.

24. *Necessity or luxury.*—The selling plan will be partly influenced by the classification of the product as a necessity or luxury. These terms are merely relative; the luxury of today may be the necessity of tomorrow. Typewriters were luxuries at first, and a system of intensive selling had to be adopted to take them out of the luxury class. A product bought by the few may be sold to jobbers, to retailers, and to consumers—to any one who will buy, in short, without danger of complicating trade relations. A product

bought by the many must usually be sold in accordance with a strictly predetermined policy so as to keep the good-will of the essential factors in its distribution and so as to reach the maximum number of consumers at a minimum cost.

25. *Fad or staple.*—Is the product a fad, or will the demand, once created, be permanent? If it is a fad, the selling campaign must be quick and productive of instant results. If the demand will be permanent, a considerable investment in good-will may be justified, and the plan may be based on the policy of going slowly but surely. A new style of men's hats, based on the ephemeral popularity of an actor or other public character, must be pushed to the utmost while the craze lasts; every avenue of sales must be cultivated, and expediency rather than established policy must govern procedure. A new roofing preparation would bring returns but slowly; the manufacturer would have to lay the firm foundations for future success by a careful picking of sales channels and by husbanding his resources so as to be able to continue his efforts during the time necessary for its cumulative effect to be felt.

26. *How often will the customer buy?*—How many sales will be made to a customer? A new brand of shoes might be pushed continually in a given territory because customers could be induced to buy over and over again. A manufacturer of office safes must constantly find new buyers for his product. The consideration of whether the product

is to be a "repeater" or is to sell only once to a customer is of first importance in planning the marketing campaign.

27. *The problem of selling seasons.*—Finally, when will the product sell? Is it in use all the year around, or is it seasonal? Garden seeds can not be sold in the same way as fountain pens. The man who can get satisfactory returns from his selling efforts twelve months in the year will do business in a different way from the man who has two selling seasons a year and who in the off-seasons must manufacture for stock or close his plant. The same consideration vitally affects the amount of capital he will need, the credit terms he must give to the trade, the physical means he adopts to get his goods thru the channels of trade, the profits he must get on individual sales, the amount and kind of advertising that he can economically use and nearly every other factor in his marketing plans.

SUMMARY OF STUDY OF THE PRODUCT IN ITS RELATION TO METHODS OF REACHING THE MARKET

MAKING SURE OF THE PRODUCT
- Technical tests
- Practical tests

RAW MATERIALS
- Price fluctuation
- Who controls them?

PLANT CAPACITY
- Present capacity
- How much of it is used?

What increase in business can be cared for?
Opportunity for expansion

MANUFACTURING COSTS

Effect on margin for sales expense
Effect on selling prices

FINANCIAL CONSIDERATIONS

What part of capital can be used for marketing?
How much increased production will present capital permit?
Can capital be increased?
Is increase justified?
What fixed charges must be met?
Must returns be quick?
Can long-time investments be made in distributing warehouses, advertising, and intensive sales efforts?
Relation of capital to credit policies
To what extent can manufactured stocks be accumulated?

NATURE OF THE PRODUCT

Bulk or package goods
What is the product for?
Need of changes to lessen competition
Possibility of standardization of sizes and styles

DEMAND

Can the product be sold profitably?
Is demand expressed or unexpressed?
Brand consciousness
Influences of prejudices
Relation of manufacturer to consumer
Necessity or luxury?
Fad or staple?
How often will consumer buy?
The problem of selling seasons

REVIEW

What points should be considered in developing a selling plan?
When should a manufacturer or distributor analyze his marketing problems?

What are the purposes of product and market analyses?
How should the product be tested?
Discuss the bearing on the marketing plan of raw materials, costs, financial considerations and the nature of the product.
Take a product in which you are interested and lay out a selling plan for it.

CHAPTER X

STUDY OF THE MARKET

1. *Why study the market?*—The market is studied to find out the most effective and economical method of marketing and to guide the seller in almost every detail of selling technic. No one can sell effectively unless he has intimate knowledge of the people who compose the market, where they live, when they buy, how they buy, how much they can be expected to buy, and from whom they buy. Knowing these things, he is in a position to direct his own competitive efforts along lines that will bring the largest returns with the smallest chance of waste and failure. The market facts that chiefly need investigation in one business are not always the same as those of most importance in another business. This chapter outlines the main points of a complete market analysis. The basic questions must be answered by every one who has anything to sell. The outline, altho applying chiefly to a manufacturer's problems, is almost equally applicable to a wholesaler, and it contains many suggestions of value to the retailer.

2. *Who comprise the market?*—The manufacturer must first visualize the people who make up his

market. Who is going to buy his product? To whom must he appeal? He must know not only the people who actually do the buying but also those who influence the buying. Men buy automobiles, but boys and women largely influence the choice. The family piano is seldom selected by the man who pays the bill. The question as to the precise group of people who should be the chief targets of the selling appeal is often a nice problem, requiring great care in the solution. The manufacturers of business phonographs are facing this problem and are doing an interesting work in harmonizing the apparently conflicting interests of typists and office managers.

3. *Men, women, or children?*—Sex and age are the first considerations in market analysis. A selling talk addressed to women in the home or to women readers of advertisements is usually a very different thing from a selling talk addressed to men. Children are appealed to in still a different way. One of the interesting developments of marketing is the growing number of manufacturers who seek to establish the names and value of their products in the minds of the rising generation. The products advertised in the pages of the juvenile publications are largely the same as those advertised to adults. There is a rapidly increasing number of products that are sold to, or used by, boys and girls exclusively. A manufacturer of a particular kind of footwear had assumed that his market was almost usually di-

vided between adults and juveniles. A careful market analysis proved that juvenile trade was eighty per cent of the whole. This discovery was the cause of a radical change in the sales and advertising plan.

4. *Influence of class.*—To what class do the possible purchasers belong? Are they rich or poor? Does the product appeal chiefly to the masses or the classes? Automobile tires were originally sold to the well-to-do. An occasional dealer here and there was adequate to satisfy the trade. Prices were high, partly because of relatively small production. Advertising appeared in publications going largely to people of wealth. All this is changed. The appeal now is to all classes of people. There must be one or more dealers in every community. Large scale production has greatly decreased prices. The advertising is well-nigh universal.

Many errors are made in estimating the classes who form the best market. Many sales are lost to manufacturers who complacently accept a narrow market without really digging into the problem of possible consumption.

Occupations of possible buyers have an obvious influence on selling methods. Merchants, hod-carriers, and railroad presidents buy goods in different ways and often for different reasons. Expensive jewelry can be profitably sold to the exclusive jewelry trade by high-grade salesmen calling on the dealers. Cheap jewelry sold in variety stores must be marketed in a different way.

5. *Finding the undeveloped market.*—A manufacturer who carefully studies the people composing his market does two things: he finds out the kind of people to whom his type of product is normally sold and he also is likely to uncover a hitherto unfound or undeveloped market. Yeast makers formerly sold their product to bakers and to housewives. The discovery that it could also be sold to men and women generally to be eaten as an aid to health has had a markedly beneficial effect on the industry.

6. *City and country markets.*—Where do the possible buyers live? What is the physical size and location of the markets? Environment is the first consideration. Do buyers and possible buyers live in cities, in small towns, or on the farm? For some commodities, the answer is obvious. The market for windmills is limited by the nature of the product. For most products inquiry will prove that environment has little influence except on the relative receptivity of the different markets and on the comparative difficulty of reaching them. Not so many years ago many manufacturers neglected the farm market. The rising standards of farm living are today providing an attractive market on the farm for many products heretofore sold chiefly to the city trade. A manufacturer who will not blindly limit his opportunities must ignore traditional market limitations and must seek his opportunity wherever men and women live who have normal human needs and the money to satisfy them.

7. *Size of the market.*—Is the market international, national, sectional, or local? The factors that chiefly limit the physical extent of the market are the nature of the product and characteristics of the people who compose it, transportation, climate, and relation to other products and other markets. The market for straw sombreros is largely confined to territories inhabited by Mexicans. Transportation costs limit the market for a brick manufacturer to a relatively narrow radius from his plant. Climate limits the size of almost every market; cotton gin machinery can be sold only in districts where cotton can be grown; woolen caps are not a lively commodity in Brazil; heavy rubber overshoes are not greatly in demand in Florida. Belting for threshing machinery can be sold only in localities where threshing machines are used.

8. *Limitation of the market.*—Every manufacturer does not cultivate all of his possible market. Sometimes the cultivation of only a part of it is the result of ignorance of its true extent. More often development of only a part of a possible market is the result of conscious sales policy based on competitive considerations, limited manufacturing and marketing resources, or on a desire to try out selling methods in a limited territory before making a heavy investment in more far-reaching operations. In the case of a new product, prudence frequently dictates a modest start in a single community, with carefully coordinated and intensive sales and advertising work,

the campaign being extended to other communities only as it is possible to bring to bear on a wider area a degree of selling force that will largely preclude the possibility of failure in any community.

9. *Opportunities abroad.*—Few manufacturers fail to realize the physical extent of their domestic market. Few of them are aware of the extent of their possible foreign market. Until the Great War, the exporting manufacturer was the exception. This was partly because of ignorance of foreign demand and of exporting methods and partly because the complete absorption of the product at home made unnecessary a search for a wider field abroad. We have been forced to abandon our insular viewpoint, and the great increase in productive capacity of our manufacturing plants is likely to force manufacturers to look abroad to a degree that they never have before. In the near future America will probably be among the leaders in the export of manufactured goods. The manufacturer who does not study the foreign field for his product is permitting an arbitrary geographical line to limit his opportunity for growth and profits.

10. *Seeking unexploited fields.*—That manufacturer is fortunate who can find a market that his competitors have overlooked. The immediate vicinity of the factory is usually a fertile selling field. An isolated community that is difficult of access is frequently neglected by salesmen, and reacts readily to a little intensive effort. A section of the country

where one or more competitors have long had a firm hold on popular demand may not repay a manufacturer whose selling efforts must bring relatively quick returns; he would be better off if he sought a field where competition is not so intrenched. The purpose of studying the physical extent of the possible market and the conditions that obtain in each section of it is, first, to enable a manufacturer to know his opportunities, and, second, to enable him to know his limitations. Both kinds of knowledge are equally valuable if money is to be laid out in such a way as to bring the greatest net return.

11. *Buying seasons.*—Is the product a year-around seller or can it be sold only in certain seasons? One of the most difficult markets to cultivate is the seasonal market. Compare the opportunities and the selling problems of the manufacturer of lead pencils and of the manufacturer of straw hats. There is no seasonal demand for lead pencils, except perhaps, a heightened demand at the opening of the school year. The trade and the consumer are equally responsive to selling efforts at all times thruout the year. Goods can be moved in a relatively steady stream from the factory thru the channels of trade to the points of final consumption.

The manufacturer of straw hats has but one season and a very short season. He can produce economically only if he keeps his factory going at capacity the year around. To do this, he must estimate seasonal demand twelve months or more in

advance and then attempt to schedule production thruout the year. He must induce jobbers and retailers to place advance orders many months before the consuming season and then, if these advance orders do not cover what he believes will be maximum requirements, he must manufacture for stock at his own risk, or he runs the chance of losing business thru not having stock to deliver when the consuming season is under way. He must arrange to have his customers accept a considerable part of the goods ordered by them, long before the consumer wants them, so that he can get money with which to carry on his operations and so that the goods will surely be on hand when the season opens. He must guess about the popularity of new styles and risk large loss on them without having the opportunity to try them out in a tentative way. A seasonal market is always a difficult market, which presents many serious and complicated problems.

12. *Weather as a factor.*—Some seasonal markets are made more uncertain by the vagaries of the weather. Overcoats sell chiefly in fall and winter, and then in large volume only if there is a normal amount of cold weather. The seasonal nature of the market may be exclusively a matter of weather as seen in the sale of umbrellas. When weather must enter into a manufacturer's considerations, he has an uncertain factor to deal with that makes it necessary for him to schedule his operations with the utmost caution.

13. *Overcoming a seasonal market.*—There are two movements designed to reduce the uncertainties of seasonal sales. One is the growing custom of continuing consumer advertising of seasonal goods thruout the year in order to fix more firmly the advertiser's brand in the minds of the buying public. The manufacturer who can afford to do this has added assurance that his goods will sell if the season develops any sale at all for products of the kind that he makes. Another development is the attempt to put goods that were formerly seasonal sellers into the all-year-around class. This has been done with scouring soaps, automobiles, paints and many other products. The reward is great for any manufacturer who takes his product out of the class of seasonal sellers.

14. *When do buyers enter the market?*—Sales can be increased by a careful investigation of the occasions that induce buyers to enter the market. Records of weddings and births provide an opportunity for producers and distributors of many kinds of articles. Office equipment and home furniture can be sold to those who have suffered loss thru fire. The record of building permits is a valuable index of possible buyers for dealers in many kinds of material. There are few businesses that can not increase sales by intelligent use of clipping bureaus and other sources of information regarding possible buyers.

15. *Business conditions as business guides.*—Every manufacturer and dealer should be a close student of business conditions. The sale of practically all commodities is influenced by conditions of general business prosperity or depression. The theory of business cycles is generally accepted. They are based on an actual wave-like movement of trade and their underlying reasons are becoming better understood. A study of these cycles and the development of business policies founded on them are characteristics of the new trend toward more careful analysis of all factors that might influence production and sales. Apart from the general movement of trade, there are many local conditions of prosperity or depression that should be carefully watched. The appearance of the boll weevil in the South may not seriously affect business as a whole but it will very seriously affect the market for all kinds of goods in the cotton-growing States. Before the days of quick dissemination of news and complete reporting of every possible kind of business fact and tendency, there was an excuse for failure to keep in touch with business conditions. There is no excuse today. There are countless opportunities to keep in touch with the trend of business. No manufacturer or dealer can afford to ignore them.

16. *How do consumers buy?*—Many things are involved in a study of how consumers buy. Allusion has already been made to brand consciousness and a number of interesting questions arise in this connection. Do consumers buy a brand name? If so, how strong is their attachment to established brands? It has been said that if an article contributes to the per-

sonal comfort, health, or appearance of the person for whom it is bought, or to the appearance of some of his possessions, his attachment for it is much stronger than for some other possession bought on the basis of utility, economy, or efficiency. It is hard to switch a man from a make and shape of collar that satisfies him. It is much easier to switch him to a new brand of writing ink. Considerations such as this aid the manufacturer in estimating the amount of business he can hope to get in a competitive field and in determining the necessary strength and direction of his selling efforts.

17. *Customary sales channels.*—Are consumers accustomed to buy from manufacturers or from dealers? Are they accustomed to seek their own sources of supply, or is personal solicitation of their trade the rule? Adding machines and life insurance are seldom bought except as a result of personal solicitation. On the other hand, a man peddling cigars from office to office may be looked upon with suspicion because smokers usually make their purchases at stores or by mail. It is by no means necessary always to follow traditional sales methods, and frequently a manufacturer or dealer finds his opportunity by doing the unusual. The usual, however, should be carefully studied, and the possibility and cost of doing the unusual should be thoroly investigated in advance.

18. *Buying habits.*—Do the buyers in the market expect credit? Will sales and profits be decreased if

credit is not granted? Do they buy in large or small quantities at a time? Can they be induced to increase their unit purchases? Buying habits may be changed but in many cases it is advisable to harmonize selling efforts with existing preferences and habits of the market.

19. *Consumption possibilities.*—What are the consuming possibilities of the market? What are the total sales of all competing products? What are the possibilities of additional sales? Total consumption and per capita consumption should be ascertained or estimated for the market as a whole as well as for sections, states, and individual communities. A study of this sort enables a seller to know the possibilities in the business, to set quotas for himself and for his salesmen, to direct sales efforts towards territories where the most business is to be found and to measure his success in any community against the possibilities in that particular market. Consumption possibilities are among the things that should serve as a basis for production schedules and for determining the amount to be invested in selling activities.

20. *How stable is the market?*—Is the market growing or shrinking? If the annual growth is large, the manufacturer entering the field can expect to get a share of the business with comparative ease, because rapid increase ordinarily means much unsatisfied demand. If the total business is stationary or decreasing or if it shows only a small increase, the cause should be ascertained. Possibly changing

social conditions are narrowing the market. Perhaps a new product is superseding an old. Candles and brooms illustrate these conditions. A market of this sort is not promising. One who enters it, or, being in it, wishes to increase his own business, must fight a purely competitive battle; his gain will be his competitors' loss. If his competitors match his own activities, the result will be increased sales cost for all without corresponding increase in sales. Fortunately this type of market is not typical. Usually when total consumption is not increasing, it is because manufacturers and dealers are not awake to their opportunities. If this is the case, an enterprising individual has the chance to develop and satisfy increased demand. This is the most profitable form of competition. A market that offers an opportunity for constructive sales activities is always more attractive and more profitable than one that admits of merely competitive marketing methods.

21. *Influence of other markets.*—The sales of some products depend on the sale of others. For example, tire sales can increase only with the increased use and sale of automobiles. In such instances, study of the market should include a study of the market for the product that governs the sale of accessories. The replacement problem, where it exists, must receive consideration. If but one sale is usually made to a consumer, as in the case of an office safe, the problem differs from the case of a commodity that sells over

and over again. If goods are not quickly destroyed by consumption, the second-hand market and its problems must enter into a manufacturer's investigation of his own opportunities. The relative number of consumers who will purchase new goods and second-hand goods can seldom be foretold with any degree of accuracy. Every possible factor bearing on the problem should be investigated so as to reduce as far as possible the uncertainty of estimating the size of the market.

22. *The problem of competition.*—Data regarding consumption are not sufficient to guide a seller in determining his market's possibilities; he must know the other important factor, competition. Who else are getting the business? How much are they getting, how are they getting it, and how much can he expect to get for himself? His inquiries should include not only all products of one class but also dissimilar products serving similar purposes. Hot-water heating systems compete with hot-air and steam heating systems. Coffee competes with coffee substitutes. Candy competes with chewing gum. Carpet sweepers compete with vacuum cleaners.

How many competitors are there? How many in the market as a whole? How many in each community? What are the resources of each? How long has each one been in business? The modern business man does not talk much about his competitors but he knows who they are, what they are doing

and what they are able to do in the field in which he is operating. To ignore competitors is to fight in the dark.

23. *Relative strength of competitors.*—What is the relative strength of competitors? Suppose a manufacturer finds there are fourteen competitors in the territory that is naturally his. One gets seventy-five per cent of the business, one gets ten per cent, and the other twelve divide the remaining minute portion. If the new manufacturer needs ten per cent of the business in order to keep his plant running, he might decide that it would be cheaper and easier to go after the business of the trailers rather than to try to make a dent in the trade of the overshadowing leader. It is normally less difficult to enter a market in which there are a few dominant figures and many less important ones than one in which a large number are striving evenly for the business. If the leading manufacturer gets only fifteen per cent of the total business and if he is closely followed by many others, the new manufacturer who plans for a large output must rank from the outset well up among the leaders if he is to keep his plant busy. This is not easy, and the manufacturer attempting it must be well backed by capital and selling strategy.

The difficulty of competing against a few outstanding leaders in an industry may be measured by ascertaining the causes that have brought about their leadership. Is it due to control of materials, to special processes of manufacture, to style control, to

successful advertising, to patent rights, to consolidation of individual plants into single large units or simply to effective management?

What is the present prosperity and good-will of each competitor? Has he stood still, or does a healthy growth indicate growing good-will and efficient methods? How is he thought of in the trade? Will it be easy to compete with him, or is he likely to match any trade-drawing activities launched by a competitor?

24. *Competitors' selling methods.*—What are the marketing methods of each competitor? What is the policy of each with respect to sales channels, advertising, credits, dealer cooperation, prices, profits, quality, guarantees and all the other things that make up the details of sales policy? Competitive prices are a matter requiring constant watchfulness. Competitors can not and do not get together to fix prices but the organization of any market is such that there is a perfectly natural trend toward relatively uniform prices for relatively uniform goods. The purpose of studying competitors' selling methods and policies is not to enable the investigator to copy their procedure; good business is not imitative. The purpose is to permit the investigator to take advantage of mistakes of others, and to guide him in following custom where customary methods—the line of least resistance—seem to be the best for the given conditions.

25. *Building a distinctive selling appeal.*—A final reason for studying competitors is to enable a manu-

facturer or dealer to make for himself as strong a position as possible in the competitive market. He can advantageously give each important competitor detailed consideration, to determine the reason for that competitor's hold on his market. The reason may be found in habit, personal feeling, special service, location, price, terms, quality advertising, control of patents, or in any of the many other things that influence trade. The investigator should then pick his own business to pieces in the same way to determine why consumers buy, or should buy, from him. His purpose should be to find some one or more facts about his product or his business that can be used to make it stand out from all others—some selling point or points that will give his sales appeal identity and distinction. When competition is strong, a sales appeal that is similar to many others has little chance to build a strong and successful business. To be largely successful it must embody a relatively new idea, it must tie up with some unexploited interest of the consumer, or it must depend for its success on an old idea redressed, freshened, and presented to the trade in such a novel way as to make the product stand out in its field. An investigation of competitors' and of one's own business intended to bring out the selling appeal that will be most effective in competition should take into consideration most of the points that have been outlined for study of the product and study of the market.

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CHAPTER XI

FINDING THE SELLING POINTS

1. *How selling points are used.*—One purpose of studying the product and the market is to find the most suitable sales channels and selling methods. Another purpose is to find the selling points. The importance of the selling appeal has already been noted. How shall that appeal be chosen? This follows from an analysis of the selling points which must now be considered.

A product is bought because it appeals to the imagination, senses, or interests of the buyer. It is the seller's task to find out exactly what there is about his product that will make consumers want it. The things that can be said or written about an article and that will help the customer to make up his mind to buy it are called selling points. They are used in two ways: The salesman bases his whole selling talk upon them, and the advertising copy must be written around them.

2. *How selling points are found.*—Some manufacturers never consciously scrutinize their product in order to find its selling points. They continue along with the old story about reputation, price, and service, long after these appeals are outworn. Others adopt

new selling points that are developed by chance. The manufacturer, who definitely sets out to increase selling effectiveness to the maximum, subjects his product, his business and his market to continual analysis so that no possible selling point may be overlooked. Why? What? Where? When? Who? Which? What for? These questions are ever before him in his study of his product and its uses and in his contact with his employes and his customers. Successful business is the result of successful ideas and their application. In no other phase of business is there greater opportunity for constructive ideas than in the finding and formulating of arguments to batter down the resistance of the prospective customer.

This chapter presents an outline of things about the product and the business which should be studied when an attempt is made to list all the possible selling points of the product. All the selling points may not be used either by the salesmen or in the advertising but unless all the points are sought out and set down there is no assurance that some of the most effective ones are not overlooked. The sources of selling points discussed in this chapter are not equally available to all products, nor do they include everything that might be considered in a search for selling arguments. They are merely guides to the investigator and suggestive of the wide range of talking points that can be uncovered for most products.

3. *History as a source of selling points.*—History is not much esteemed in a forward-looking business but it is sometimes used effectively in selling. The history of the industry may contain suggestions for the salesmen; it sometimes arouses interest, which is the first step in creating desire. The story of the discovery of vulcanization of rubber has been used both by salesmen and in the advertising of rubber products. The history of a particular manufacturer's business is at times of value in selling. The age of the company is a legitimate selling point to the extent that it implies a long period of upright dealing and long experience in successfully satisfying consumers' wants. Rightly used, it can be helpful in creating confidence—which is one of the things for which every manufacturer strives. The history of a particular product has value as a selling point, particularly when it shows development from a crude beginning to a present high state of efficiency.

4. *Raw materials.*—Selling points can sometimes be found in the raw materials that are used. If they are freely published, they may create confidence even tho the specific ingredients may mean little to the consumer. If they are not published, they may be surrounded with sufficient mystery to arouse the curiosity and interest of the consumer. If they possess qualities that make them particularly adapted to their purposes, that fact can at times be stressed. The manufacturer who controls his own sources of

raw materials can use that fact to emphasize the uniformity and quality of the things that go into his product.

5. *Conditions of manufacture.*—Conditions of manufacture are prolific sources of selling points. If the processes of manufacture are little known or if they contain certain elements of the dramatic, they can be woven into an effective selling story. The purpose is to attract attention and to arouse interest. Care must be exercised, however, to avoid telling a story that is of vital interest to the manufacturer but of little interest to the consumer. If the manufacturer has developed new processes for his own product, they can be used as selling points provided they form a basis for an appeal to the customer's interests by providing better quality, cheaper price, or greater service. The buyer's interests must be considered primarily by the seller. It is only as selling points tie up those interests that they are of any value, except as mere attention-getters and introductions to the real selling story.

Precision of operations, cleanliness of the plant and its workers, and the expertness, length of service, and character of the employes are sometimes used as selling points. Obviously they can not all be used for all products. Cleanliness is a strong appeal for a food product but it would mean little in selling a motor truck. A strong story can be built around the frequency and accuracy of inspection and tests. A statement of the number of rejects as the result

of careful inspection is a useful selling point, particularly if the product is technical and is bought by those with intimate knowledge of conditions of manufacture.

6. *Volume of production.*—The extent to which volume of production may well be used as a sales appeal is questionable. If a company really holds the dominant place in its industry, a statement to that effect at times has beneficial results. It is chiefly useful when the company invades a new field in which it is little known. The danger is that the statement will be considered a mere boast. Unless it carries with it the suggestion of strength, character and effective service to customers it is of little value.

7. *Reputation of managers.*—The reputation of the men who direct the technical operations in the factory has some value in selling. If the names of the men are known in the industry, it is sometimes advantageous to feature their part in the manufacturing processes.

8. *Industrial relations.*—With the increasing emphasis upon the conditions under which factory workers are employed, there has arisen an opportunity to use satisfactory industrial relations as a selling point. A manufacturer of steel based a year's selling and advertising campaign on the contentment and loyalty of his employes and on the methods used to give them fair treatment and attractive working conditions. Some of this sort of thing is useful but it must be done with caution. Unless overdone, it

may arouse interest and create confidence but, even in the best managed plant, there is always the danger of industrial disputes which will discredit the sales talk and the advertising. If a manufacturer can fortunately combine low prices for his product and unusually high wages for his workers, this condition may be capitalized to advantage, particularly in sales to the laboring classes. Unusual provisions for safe-guarding the health of factory employes and for increasing their comfort and happiness help at times to create favorable public opinion for the manufacturer and his products. The manufacturer who provides these facilities primarily for their publicity value, however, is likely to defeat his own ends.

9. *Manufacturing policies.*—Manufacturing policies can be formulated as sales arguments. When volume of production is large, its effect on reducing the unit cost of manufacturing and on maintaining minimum sales prices is frequently and effectively urged. On the other hand, a policy that dictates the production of relatively few units, each one the product of every possible refinement of hand-work, individual care, and perfect finish, is equally effective when price is a minor consideration in the sale. Ingenious machine operations can be urged as a reason for standard product, uniform parts and low price. Hand operations can be urged as an assurance of intelligent workers and interested attention to all details of production.

10. *Financial policies.*—Financial policies are

sometimes used as selling points. A railroad made much of the fact that its stock was largely held by many small holders dependent upon its dividends for their support. On this it built a story of its feeling of responsibility and the necessity of giving a type of service that would insure the stability and prosperity of the company. An automobile manufacturer announced that he would expect and would take only a specified percentage as net profit on his sales; his purpose was to create the impression that in his car an unusually high percentage of the selling price went into the purchase of good materials and good workmanship.

11. *Selling policies.*—In the field of selling policies there are many things that can serve as the basis of a selling talk. Convenience in buying is important to the consumer. If a product is sold by house-to-house canvassers, the manufacturer can legitimately argue that he is contributing to the convenience of his customers. One of the stock appeals of those who make and sell ready-to-wear clothes is that the buyer of their goods avoids the inconvenience of the custom tailor's measurings and try-ons. When goods are sold by catalog, the customer is led to believe that he is getting the goods at more convenience to himself and at lower prices than if he bought them in some other way.

The plan of payment may be made a strong selling point. Credit on purchases has an appeal to many people. Large businesses are built up with

universal credit to consumers as their chief appeal for trade. Payment by instalments is a common variant of the credit selling point. Longer terms of credit have sold many bills of goods to dealers when other arguments have failed.

Free delivery is a bait that sells much merchandise. A specialty manufacturer in an inland community developed a nation-wide business that was at least partly due to his slogan: "Jones, he pays the freight." One of the most effective selling points from the field of selling policies is the guarantee or money-back offer. It is so generally used now that its use gives little competitive advantage, but in earlier years its novelty and obvious appeal were responsible for many great business successes. If a product consists of parts that may need renewing, a selling policy that provides for economical and convenient renewal of parts is a strong argument in pushing sales.

12. *What does product do for the consumer?*—It has been said that the consumer's interests must be paramount in selecting selling points. Selling talk that appeals to him is good; selling talk that does not appeal to him is worthless. The manufacturer must always ask: What does the product do for the consumer? In the preceding paragraphs the emphasis has been upon sources of selling points. In the following paragraphs the emphasis is upon the consumer's point of view. They contain suggestions of the reasons why standard avenues of approach to the consumer's interests have been used effectively to obtain favorable reactions to selling appeals.

13. *Appeal to the senses.*—Our senses are our only means of contact with the outer world. A direct appeal to one of the buyer's senses—sight, taste, hearing, touch, and smell—is the quickest way to get a favorable reaction. The sense of sight is stimulated by selling talk based on the beauty of the product—beauty of form, color, or design. The salesman who shows his samples against attractive backgrounds and who surrounds them with an atmosphere of value and worth utilizes this appeal. So, too, does the advertiser who emphasizes the beauty of his goods by the beauty of his advertisements. If goods themselves appeal to the eye, the seller has a great advantage. If they do not, he should handle them and talk about them in such way as to simulate the attractiveness that they may inherently lack. If the goods do not appeal to the eye, an attractive container may overcome this defect.

The sense of taste is appealed to by most manufacturers of tobacco and food products. For the mere statement that the product tastes good, the skilled salesman and advertiser substitutes words that almost literally make the buyer taste the flavor of the product. The purpose of free samples is chiefly to get the maximum effect from the appeal to taste. Manufacturers of perfumery appeal to the sense of smell; musical instruments are largely bought because of

their appeal to the sense of hearing; fabrics are sometimes sold because they delight the touch as well as the eye. No manufacturer who can find in his product a real appeal to one or more of the five senses can afford to overlook that appeal in his selling argument.

14. *Personal and family pride.*—The appeal to personal and family pride is an effective one. The style appeal is a direct appeal to pride. In many classes of commodities it is the strongest appeal that can be used. Any product that enhances the personal appearance has a relatively easy road to popular favor. The soap manufacturer who uses the slogan, "The skin you love to touch," found the logical answer to his question: "What will my product do for the consumer?" The statement that a product or its materials are imported is largely an appeal to pride. So too is the appeal of exclusive patterns and styles. In this class also is the appeal to the buyer on the score that this or that famous man or woman uses the product.

An appeal to family pride is equally as strong as an appeal to personal pride. House furnishings are bought partly because of the desire of the buyer to give his family an environment as good as that of their neighbors. No one can estimate the number of expensive automobiles that have been bought on this basis. Some private schools base their selling appeal on the social advantages to be derived from attendance. No other appeal to the buyer is so strong as

that which encourages his natural inclination to provide for his family the best that he can afford.

15. *Personal and family welfare.*—Under the general head of appeals to personal or family welfare there are many possible points of contact between the product and the consumer. The public pays many millions of dollars for pleasure and amusement. In some way almost any product can be shown to contribute to the buyer's pleasure. A talking machine is an educator as well as a purveyor of amusement; probably one hundred are sold for amusement where one is sold as an aid to musical education. The manufacturer who stresses attractive appearance of such a utilitarian product as a kitchen cabinet is appealing to pleasure.

16. *Education.*—The educational appeal is one of the strongest that can be used. The desire for self-education and for education for one's children are the driving forces behind much that is characteristic in American civilization. Books, pianos, magazines —anything that has an educational appeal can be sold largely on this basis.

17. *Convenience.*—Convenience to the user is often the chief selling point of an article. "It floats" probably sells as much soap as does the slogan "99 and 44/100 pure." The dental cream that "Comes out like a ribbon; lies flat on the brush" appeals to convenience—a strong appeal in a competitive market where many dental preparations all have the qualities for which the consumer primarily buys a denti-

frice. Food products that are readily prepared for the table combine an appeal to convenience with an appeal to taste. Convenience to consumers was in the mind of the manufacturer of cylinder oil who devised a chart to guide buyers in getting the proper grade of oil for their cars.

18. *Appeals to comfort.*—The public is self-indulgent; it likes to be comfortable. An appeal to comfort is always effective. Luxuriously riding automobiles, easy-fitting clothes, devices to regulate the furnace and obviate a trip to the basement, furniture, lighting systems—they all have an appeal to comfort. Anything that is labor-saving or time-saving contributes to our love of comfort. People do not wear hosiery because it will not wear out but they buy it in large quantities if the manufacturer creates the impression that darning is a remote contingency. This is supposed to be an age of efficiency. Anything that cuts steps, saves time, helps to avoid lost motion seems to be inherently interesting. From the woman in the home, whose busy day invites the ingenuity of manufacturers of labor-saving devices, to the business man in his office, there are many classes of consumers who can best be reached by the labor-saving appeal.

19. *Other welfare appeals.*—Thrift, as the gateway to comfortable independence, is one of the important appeals under the head of personal or family welfare. So, too, is healthfulness. There seems to be an almost limitless market for patent medicines,

devices, preparations, courses, and books for which the producers claim the ability to restore good health, ward off bad health, increase the weight, decrease the weight, develop the muscles, and in general give that degree of health and vitality which is thought to be necessary for personal efficiency and success in business. Another appeal to general welfare is the appeal of simplicity. The argument that a product is non-technical, that it can be used or operated readily, is effective when sales might be blocked by a fear that the contrary was true.

20. *Ambition.*—If a manufacturer can appeal to the consumer's ambition, he has a powerful weapon. One of the strongest human motives is the desire to stand out from the mass, to earn more money, to acquire accomplishments, to increase one's social standing. The marketing of almost countless products legitimately utilizes this characteristic of the majority of men and women.

21. *Economy.*—Economy is always an effective appeal. If the price is low, the justice of the appeal is obvious. If the price is high, the consumer can be told that longer service and greater quality will more than justify the higher first cost. The thousand and one variations on the theme of service, quality and long wear are all dictated by the realization that selling is a call upon the consumer's financial resources and that the call will be most successful when the consumer can be made to believe that he is getting the most for his money.

22. *The social appeal.*—Occasionally the social appeal may be used in selling—the humanitarian instincts of the race, the average individual's inherent sympathy with others, his natural trend toward cooperation, his feeling of fellowship with his neighbors and with all mankind. Usually this appeal is employed, not in the marketing of tangible products, but in "selling" the idea of contributing to funds of various sorts and in soliciting subscriptions for memorials, public buildings, educational institutions and other similar purposes.

23. *What does the product do for dealers?*—In selling to dealers, the selling points that appeal most to consumers are not always effective. They may interest the dealer and may influence him to some degree but he is chiefly concerned with an answer to the question: "What does the product do for dealers?" The dealer is selfishly and properly interested chiefly in one thing—profits. He will buy what he can sell honestly and at a profit; he will not buy anything that does not contribute directly or indirectly to his profit. The selling points that most appeal to him are the following: Low prices and favorable terms; more sales to more customers; increased turnover; satisfied customers and increased prestige for his store. In other words, in the case of the dealer as in the case of the consumer, the most effective appeal is the appeal to the buyer's own interests.

The opportunity to realize a good margin between buying price and selling price always interests a

dealer. Long credit or liberal cash discounts attract him. If a product is little known, he is likely to entertain a consignment proposition. He likes to handle goods that mean more sales to more customers —that attract new trade to his store by reason of their low price, their novelty, or the fact that they are largely and favorably known to consumers. Nationally advertised goods appeal to him for this reason. He makes his profit largely by using each dollar of capital over and over again and by getting a net profit on each turnover. Anything that promises to sell rapidly ought to interest him. Advertised goods, if the advertising is effective, or unadvertised goods, provided there is real demand for them, are in this class. Finally, the dealer likes goods that help him to hold a clientele of satisfied customers and to increase the prestige of his store in his community. For this reason the appeals of reputation, quality, service and value are as interesting to him as they are to the consumer.

24. *Direct and indirect appeals.*—Selling appeals to consumers or dealers may be direct or indirect. The manufacturer may either tell the buyer what the product will do for him or he may rely on others to tell him. When a great pianist commends the tone of a piano, his statement has more weight than the manufacturer's claims for his instrument. This form of indirect appeal is exceedingly strong. Less effective, but used very widely, are the recommendations of obscure individuals who, in gratitude to the manu-

facturer, tell him of their satisfaction with his product. Recommendations of this sort have proved enormously successful in selling all kinds of products.

25. *Positive and negative appeals.*—The appeal may be positive or negative; that is, the manufacturer may tell either what the product will do or what it will not do for the buyer. The negative appeal is usually intended to forestall an obvious objection to purchasing. "Won't shrink woolens" has carried a soap preparation to success. "It will not break" helps to sell an all-metal vacuum bottle. "No metal can touch you" appeals to men when they buy garters. "Will not discharge accidentally" is a strong appeal for a revolver. "The varnish that won't turn white" has built large sales for its manufacturer.

26. *Selecting the selling points.*—From a long list of possible selling points, it is often difficult to select those that will best sell a product. The selection must be done in accordance with the best judgment that can be brought to bear on the problem, and tentative selections should be subjected to the test of actual use. Field surveys may be made in advance, and extensive inquiry made of dealers and consumers as to the selling points that would most influence their purchases. All this is useful but the test of actual selling must still be applied. Salesmen equipped with carefully formulated selling points for a new product will find after they have been a short time in the field that a few of their arguments are responsible for most of their sales and the other arguments have little appeal. Thus the standard selling points develop as the result of natural selection. If the product is advertised, tentatively selected selling points may be made the subject of trial efforts. The result will be conclusive only if direct orders are solicited in the advertising and if all conditions of copy excellence, display, and space and mediums used are the same for all the tests that are conducted.

27. *Value of charts.*—Some selling points are so fundamental that they should be used over and over again, in every selling talk and in every advertisement. Others of a more supplementary nature may well be varied from time to time to meet changing conditions in the market. Every sales manager, salesman and advertising man will find it helpful to maintain a chart of all possible selling points for his product. If the points in the chart are classified in accordance with their relative appeal to different classes of customers, the chart can be of great assistance in freshening up a selling talk and in preparing advertising copy. A chart of selling points used by the workers for the Fourth Liberty Loan contained the following headings:

THRIFT	ANALYSIS
Results of buying bonds	Where the billions go
Benefit of saving	
SACRIFICE	SHAME
Comparison of sacrifice	Condemnation of slackers
Reasons for sacrifice	Examples set by others

SECURITY
Backing, percentage, safety
PATRIOTISM
Love of country
Love of flag
HOPE
For success of loan
For success of the war

FEAR
For outcome of war
For success of loan

PRIDE
In country, vocation, history, and our army
GRATITUDE
To our men, our allies, and our God
RESPONSIBILITY
To our men, our allies, our families, and humanity
HATE
Caused by atrocities, broken integrity, etc.

COMPETITION
With neighbors, and other communities

It may well be admitted that in the case above cited the appeals are more largely emotional than would be the case in the sale of most products. But every one who has something to sell would no doubt improve his selling process and his advertising practice by carefully listing all the possible selling points and deciding the proper weight of emphasis to be laid upon each.

SOURCES OF SELLING POINTS

HISTORY
Of the industry
Of the company
Of the product
RAW MATERIALS
Published
Secret
Control of sources

CONDITIONS OF MANUFACTURE
Processes
Precision
Cleanliness
The workers
Volume of production
Reputation of managers
Industrial relations

MANUFACTURING POLICIES
Large production
Small production
Machine operations
Hand-work processes
FINANCIAL POLICIES
Distribution of stock
Limited profit
SELLING POLICIES
✓ Convenience in purchasing
Plan of payment
Free delivery
Guarantees
WHAT DOES PRODUCT DO FOR CONSUMER?
Appeal to senses
Appeal to personal and family pride
Style
Personal appearance
Exclusive kinds and patterns
Emulation of others

APPEAL TO PERSONAL AND FAMILY WELFARE
Pleasure
Amusement
Education
Convenience
Comfort
Labor-saving and time-saving
Thrift
Healthfulness
Simplicity
Appeal to ambition
The economy appeal
The social appeal
WHAT DOES PRODUCT DO FOR DEALERS?
Low prices and favorable terms
More sales to customers
Increased turnover
Satisfied customers and increased prestige

REVIEW

What are selling points and how are they used?

How does a manufacturer find the selling points of his product?

Discuss selling policies as applied to selling talks.

How are the senses used to appeal to the consumer?

What are some of the selling points that may be used effectively with dealers?

Distinguish between a direct and indirect appeal; a positive and negative one.

How are the most effective selling points secured?

CHAPTER XII

REACHING THE MARKET

1. *Lack of standards in selling.*—All the preliminary study of trade relations, of the product and of the market is the foundation on which marketing policies and marketing procedure must be built. When the time comes to use the information that has been collected in preparing for the actual work of selling, the great difficulty of successful selling becomes apparent. Selling is not standardized; very few of its practices have been reduced to rules and principles. Except in a small minority of cases it is not possible to say that, with certain facts about trade relations, certain facts about the product, and certain facts about the market, any specified method of selling must be adopted in order to insure certain results. If the marketing of a product could be reduced to set rules, every one who could learn the rules would be sure of a fortune.

2. *The part played by judgment.*—Uncertainty of results in marketing is due chiefly to the fallibility of human judgment. There may be the most careful marshaling of all known facts regarding the trade, the product and the market. The exact balancing of the various parts of this information might

result in exactly the right decision as to selling procedure but no one can be certain that he has given just the right weight in his judgment to each of the factors involved. The false valuation of competition, of price considerations, of influence of dealers, of classes of possible customers, or of any one of many other things that must be taken into account in selling may point the seller's decision in a direction that will not lead to maximum sales at minimum cost.

Uncertainty of judgment is no excuse for failure to obtain the data on which a judgment must be based. The greater the amount of pertinent data collected before adopting marketing policies and procedure and the more exact the data are, the less likelihood there is of wrong decisions. The possibility of an illogical decision by a jury does not deter the trial lawyer from organizing his case with the utmost care. The possibility of making a wrong decision on the basis of collected data is no justification for doing without data entirely and rushing into a marketing plan with only whim, prejudice and limited personal experience as guides.

3. *Plans must suit individual cases.*—No text-book can tell the manufacturer how to market his product. Plans do not come ready-made; each one must be built to fit peculiar conditions. The purpose of this chapter is to show that all which has gone before must be cemented together to form the foundation for the successful sales structure, and to outline the steps that must be taken in any complete plan

of marketing. These steps form two groups—marketing policies and marketing procedure. Marketing policies include the selecting of suitable sales channels, fixing the prices and terms, deciding on the use of salesmen or the mails to influence buyers, choosing between sales in bulk or by branded containers, selecting of trade-marks and packages, solving the problems of advertising exclusive agencies, price maintenance, credit, guarantees and service. Marketing procedure includes charting the cost of marketing; organizing the activities of salesmen; organizing the advertising; coordinating production, selling, and advertising; getting distribution; obtaining dealer cooperation and providing for the maintenance of suitable selling records.

4. *Trade channels.*—Following a preliminary study of trade relations, of the product and of the market, the first thing to do is to select the right trade channels. The following outline summarizes the methods of reaching the market, which are discussed in the early chapters in this Text:

A. Manufacturer direct to consumers
  1. By personal solicitation
  2. By mail
  3. Thru the manufacturer's own retail stores, usually conducted on the chain-store principle

B. Manufacturer direct to retailers
  He may reach retailers either by salesman or by mail
  1. He may deal with one or more of the following kinds of retailers:
    a. Country general stores
    b. Specialty stores
    c. Department stores
    d. Chain stores not owned by the manufacturer
    e. Mail-order houses
    f. Cooperative buying organizations
  2. He may sell generally to all retailers in a selected class
  3. He may confine sales to one retailer or to a few retailers in a community

C. Manufacturer direct to jobbers
  He may reach jobbers either by salesmen or by mail
  His goods may be distributed to any desired class of retailers by:
  1. Jobbers operating locally, sectionally, or nationally
  2. All jobbers who will cooperate with him
  3. Selected jobbers having exclusive jobbing agencies in restricted territories

D. Manufacturer direct to special representatives
  He may reach them by salesmen or by mail
  These special representatives may sell to jobbers, retailers or consumers
  They are, chiefly:
  1. Agents
  2. Commission men
  3. Brokers

5. *How many channels shall be used?*—The relative advantages and disadvantages of employing the various trade channels have already been discussed. The necessity of a definite choice is obvious. Some manufacturers select one of these possible trade channels and send their goods thru it exclusively. Others combine advantageously several channels. Whether a manufacturer is to sell thru one or more, de-

pends partly on custom, partly on the nature of his product, and partly on his ability to see new methods of marketing, to overcome tradition, and to adapt to his own use all marketing plans that appeal to him as offering new opportunities for the sale of his goods.

6. *Influence of custom.*—Trade channels are no longer standardized. One manufacturer of aluminum kitchen utensils may firmly support the jobber; another may sell direct to retailers; a third may deal only by mail with consumers; and a fourth may pin his faith to house-to-house canvassing. One manufacturer may use different channels in different markets. A long familiar method of marketing may be changed over-night by some manufacturer, without any radical change in the product or in the character of the market.

This does not mean that the selection of trade channels is a matter of whim. The whole marketing world is in a state of flux, and the man with something to sell must not take accustomed marketing methods for granted. Custom is an aid in selling but, if it is blindly followed, many avenues of marketing are likely to be undiscovered. Close analysis to determine what is the one right method for any manufacturer and his goods is more necessary now than ever before if competition is to be met and sales are to be increased.

7. *Manufacturers' chain stores.*—One trade channel has not been heretofore discussed—reaching consumers directly thru chains of stores owned by the manufacturer. These chains are common in some lines, notably men's hats, tobacco products, confectionery and shoes. It is usually believed that the possibility of extending the field for such chains is limited. Ordinarily a single manufacturer can put one of his stores only into a comparatively large community. It is only in a few lines that the manufacturer's chain store is a possibility. A manufacturer of saws, watches, thread, cotton cloth or of countless other products could not operate his own stores except under exceptional circumstances.

A suggested modification of the chain of stores owned by a single manufacturer is a chain owned by a group of non-competing manufacturers. For instance, a hat maker, a manufacturer of men's clothing and a shoe manufacturer might combine to sell their products in a chain of retail establishments. The difficulties of cooperative effort of this character have kept manufacturers from trying it. Even if it were a workable plan, it is doubtful whether the cooperative chains would have greater opportunity for wide development than the chain of a single manufacturer.

Manufacturers are loath, as a rule, to establish chains of stores. Manufacturing and retailing are two distinct activities; it usually takes a distinct type of training and ability to be successful in each. The manufacturer is likely to think he can use his capital to greater advantage in extending his manufactur-

ing facilities than in branching out into retailing. If a manufacturer does not sell exclusively in his own stores, the fact that he operates one or more stores of his own will have a disturbing effect on independent dealers to whom he must look as the chief outlet for his goods. There are relatively few manufacturers' chains, and it is seldom that a new one is established.

8. *Selling by mail or by salesmen.*—The chosen trade channels may usually be reached either by salesmen or by direct-by-mail sales letters and advertising. The exclusive cultivation of the market by sales letters and by advertising is rare when sales are made to jobbers. At the outset this method of selling would probably produce few orders. A few commodities are so widely known and so widely advertised that the manufacturers have been able largely to dispense with salesmen and to rely on jobbers sending in their orders by mail as a result of consumer and dealer demand for the goods. Food products that sell over and over again to the same consumers are the chief commodities in this class. Mail-order selling at wholesale is not unusual. A few nationally known jobbing houses do business exclusively by means of catalogs and mail-orders. Many more smaller wholesalers operate in the same way. The number of manufacturers selling direct by mail to consumers is very large.

In using the mail-order method exclusively to appeal to retailers, the manufacturer or jobber must

usually offer the price inducements if he is to compete successfully against others whose representatives personally solicit the trade. Selling exclusively by mail to dealers has obvious limitations but as a supplementary selling method its possibilities are great. A manufacturer making a single product of low selling price can not build large sales to consumers if he depends on mail-sales exclusively. Nor is this method of selling usually applicable to the sale of articles requiring a considerable outlay of money or requiring technical knowledge for installation or upkeep. Between these two extremes the field for the selection of either salesmen or the mails as the medium thru which the consumer is to be reached is very large. A selection of one or the other, if only one is to be used, will depend less on proved principles or the experiences of others than on competitive conditions, questions of expediency and the personal inclination of the manufacturer. Selling by mail to retailers and consumers has been discussed in the chapter on "The Mail-Order House."

9. *Prices.*—Selling prices depend on the cost of production, the expense of selling, on profit and on competition. They may be fixed and certain for each class of sale or of customer, or they may be uncertain and subject to the bargaining ability of the salesman. The manufacturer must decide whether he will sell to all classes of buyers at the same time, or whether he will recognize the customary difference in prices to jobbers, to retailers and to con-

sumers. Is he to sell at a fixed price regardless of quantity purchased, or are his prices to vary with quantities? If the latter, what quantity discounts will work to the greatest advantage of his dealers as well as himself. Shall he publish net price-lists for various classes of customers, or shall he publish only gross prices subject to varying discounts for different buyers and different conditions of sale? The chapter on "Price Policies and Price Maintenance" treats of these problems in detail.

10. *Selling in bulk or in packages.*—Shall a manufacturer sell his goods in bulk or in packages? Shall he sell them under his own trade-mark and brand names, or shall he identify them only by the private brands of his distributors? Are the jobber and retailer better off if they handle goods with the manufacturer's trade-mark or with brand names of their own? This phase of selling policy is discussed in the chapter on "The Private Brand Problem."

11. *Trade-marks and cartons.*—If a manufacturer sells his goods in packages and if he seeks to have dealers and consumers identify them by brand names, the selection of suitable names, trade-marks and packages is a problem of first importance. A name that complies with commercial and legal requirements may carry a product a long way to success, while a poor name or one that can not be protected may disastrously handicap a product or be the source of endless difficulties. A package is not something merely to contain a product; it is an advertisement. If it is

unique and attractive, it may have tremendous selling force; if it is weak and common-place, it will put a heavy burden on the salesmen and on the advertising. The problem of getting the right name and the right carton is so important that it is discussed in a separate chapter on "Trade-Marks and Packages."

12. *Place of advertising.*—To what extent is advertising to be used as an aid in selling? Is it to bear the whole burden of selling, or is it to supplement the work of personal salesmen? Is it to be educative in the sense of developing new classes of customers or teaching them new uses of the product; is it to be chiefly competitive—an added weapon in fighting for position in an established market; or is it to be protective—insurance against competition that may develop in the future? Can advertising be expected really to induce active and insistent consumer demand, or is its function primarily to create a favorable public opinion and ready consumer acceptance of the product? Many manufacturers undertake advertising without consciously fixing its place in their selling schemes. Advertising can do much but its aid must be invoked with far-sighted vision and a knowledge of its limitations as well as of its possibilities. Many so-called advertising failures are due, not to a failure of advertising, but to a failure to plan definitely for what it is intended to do and to use it in the way and in the degree that are necessary if it is to accomplish the desired purpose. A separate chapter in this Text, on "National Ad-

vertising and the Dealer," treats of advertising as it affects the relation between manufacturers and distributors. Other Texts treat of the principles and the practice of advertising.

13. *Exclusive agency problems.*—Shall the manufacturer who sells thru dealers sell thru one exclusive agency in a community or section of a community, thru carefully selected dealers or classes of dealers, or thru any dealer who may be willing to handle his product? The problems of selling policy involved in the practice of general distribution as opposed to the selling or buying of goods on an exclusive basis are discussed in one of the following chapters.

14. *Credit.*—To what extent is the business to be conducted on a credit basis? If the industry is one in which cash sales are the rule, shall the individual manufacturer take advantage of this fortunate condition, or shall he offer credit as a competitive selling point? If credit is the rule, shall the individual manufacturer follow the procession, or shall he avoid losses and reduce operating expenses by doing only a cash business? Obviously, in this case, he must offer unusual inducements of price, quality, or service if he is to develop a large business in a competitive field. The question of credit or cash involves at times questions of public policy. The extensive sales of high-priced luxuries on credit during the boom period following the Great War did its part in producing high prices and credit inflation.

15. *Guarantees.*—Marketing policy should express the manufacturer's attitude toward his product and his customers. Is he to stand absolutely behind the quality and service of his goods, and is he to protect the dealer in a similar stand? So unusual was such a policy in olden days that the common law developed the maxim of *caveat emptor,* let the buyer beware. Few reputable manufacturers today are willing to hide behind this legal justification of unsound practices. The manufacturer or dealer who does not in some degree guarantee the things he sells is decidedly the exception. Regardless of expressed or implied warranty when he makes a sale, he holds himself responsible for the quality and workmanship of his goods and for the service they will give to the buyer.

The application of this policy to the individual product may vary with the character of the product, the conditions of the sale and the uses to which the product is put. Goods sold as "factory rejects" may legitimately be sold without guarantee of any kind. The manufacturer of burglar-proof safes can not guarantee the safety of the contents of the safe, because he can not be certain that the safe is properly closed and locked. The producer of goods obviously subject to quick deterioration, such as certain food products, can not be held responsible if they are held too long or are not properly stored. On the other hand, some manufacturers and distributors adjust all complaints on the principle that "the customer is

always right." Between this policy and the other extreme of no guarantee at all there are all shades of warranties adapted to particular products and particular conditions. The precise guarantee that is to apply in any particular case should be definitely determined and, whether expressed or not, should be thoroly understood by every customer and prospect. As a business builder no other policy is more effective than one that binds the seller to stand behind his goods. A business based on this policy can make many mistakes and still grow steadily and profitably in popular favor.

16. *Service.*—Finally, the manufacturer must decide the matter of service. Service may mean a continuing interest in the customer after he has bought the goods. It may mean real helpfulness preceding the sale, with the purpose of fitting the product definitely to the customer's needs. It may mean offering to the customer assistance and information in matters only indirectly connected with the seller's goods. It may mean nothing at all. There is a great deal of talk about service, which sometimes begins and ends in conversation. It is easy to oversell service. It is never possible to over-serve. In general, service, as the word is properly applied in modern business, means giving the buyer something more than so many yards or so many pounds or so many units in exchange for the market price. It means the doing of things that increase the comfort, convenience, and happiness of the buyer, and increase

his good-will for the seller. A policy of real service is a policy of enlightened selfishness. The buyer pays, of course, for all he gets, whether it is a rest room, or a service station, or the skill of a manufacturer's engineers which is placed at his disposal. But he is often better pleased to pay for a product with service than he would be to buy the bare product even at a lower price. The right kind of service is not inexpensive but it makes sales. No manufacturer or dealer can afford to omit service of some kind from his selling policy.

17. *Charting the cost of marketing.*—The organizing of marketing procedure follows the determination of marketing policy. The first step should be the preparation of a budget of estimated receipts and expenditures. One complete budget of this sort included the following items: Tabulation of complete expense balanced against returns from ninety per cent of proposed first year's output; detail of manufacturing costs; detail of sales organization expense; detail of advertising expense; detail of expected volume of sales with basis of estimating; detail of possible lesser and greater volume of sales, with accompanying schedules of graduated expense and returns; detail of administrative financing of the business.

The manufacturer who is analyzing an established business can start with definite facts regarding present costs; he needs to estimate only the expected increase in business and the cost of obtaining it. The manufacturer starting to sell must deal entirely in

estimates, except when he can learn the manufacturing and selling costs of a competing or similar line. These estimates are not easy to make and yet they are possibly the most important single part of the whole marketing plan. Many campaigns have failed because the expense of getting business proved to be greater than any reasonable expectation of sales would warrant; because manufacturing costs had not been adequately studied before prices and profits were determined; because sufficient capital was not available to tide over an emergency; or because of some other failure to study the finances of the enterprise and to prepare properly for the future.

18. *Organizing salesmen and advertising.*—After the manufacturer has decided what he is to do in order to sell his product, he must make detailed plans for putting his decision into effect. This means organizing his selling force if he is to use salesmen and organizing the advertising if he is to use advertising. The former includes planning for the organization of the sales department, hiring the salesmen, training them, dividing the territory, fixing upon a method of compensation, devising salesmen's reports, preparing standard methods of presentation, arranging for samples, models, and demonstrations, selecting methods of keeping in touch with the salesmen, planning methods of inducing the men to do their best, and a hundred other details that are considered in the Text on "Salesmanship and Sales Management." Organizing the advertising includes similar items,

discussed in the Texts on "Advertising Principles" and "Advertising Campaigns"—for example, choosing agency connections, organizing the advertising department, selecting the proper advertising appeal, choosing mediums, writing copy, obtaining illustrations, making layouts, placing advertisements and checking returns.

There should be chronological schedules of factory production and delivery, of sales organization work, of all the kinds of advertising and follow-up that are to be used, and of the aid to be given dealers if dealers are to be used in the marketing campaign. The purpose of referring here to all the many details of selling and advertising is to emphasize the necessity of giving them all careful consideration and of definitely planning for everything that ought to be done before any of the machinery of selling is set in motion.

19. *Team play.*—Factory officials who do not understand selling, and salesmen who do not understand manufacturing slow up the machinery of business progress. Lack of sympathy, based on lack of mutual understanding, between the factory and the sales force is so common as to be often taken for granted. This is wasteful and unnecessary. Plans should be made to inform salesmen of manufacturing problems and to inform factory officials of selling problems to such an extent that they will mutually appreciate the difficulties that each group encounters in promoting the interests of the business. Plans should also be made to insure proper team play of

advertising and personal salesmanship. Salesmen should be taught the functions and methods of advertising, and they should be given the training to use it most effectively in their work. The advertising department must be so closely coordinated with the personal sales organization that all its plans and practices will fit closely into the activities of the salesmen. Personal salesmanship and advertising are the two cog-wheels that move the machinery of business. Unless the cogs mesh perfectly, there is friction, with lost motion and inefficiency.

20. *Distribution and dealer cooperation.*—When a product is sold thru retailers, the process of inducing dealers to stock and sell the goods is technically known as getting distribution. The success of the manufacturer is absolutely dependent on getting his goods into a satisfactory number of stores and on getting the dealers to take an interest in their sale. Most retail dealers handle the products of a large number of manufacturers. Altho it is to their interest to sell as much as they can of everything that they handle, it is a physical impossibility for them to get actively behind the sale of every item in their extensive stocks. Every aggressive manufacturer seeks by some means to enlist his dealers' active cooperation in pushing the sale of his goods. The competition for the dealers' interest is so great that the manufacturer finds it necessary to give to the solution of the problems of distribution and dealer cooperation a large part of his thought and resources.

So vital is the problem that it receives separate treatment in a later chapter.

21. *Sales records.*—Finally, the marketing plan should provide for complete records of everything that is done and the results that are obtained. Plans should be laid for recording the exact cost of every phase of the salesmen's activities, the cost of each form of advertising used, the cost of sales and advertising administration, the total marketing expense, subdivided into as great detail as may be desirable, the sales attributable to the different methods of sales stimulation, records of consumption of the product by individual buyers, by town, salesmen's territories, states, or other marketing units, net profits from each form of selling effort in each subdivision of the market, comparative statements of costs and sales and profits for successive years and, in short, every kind of record that may enable the management to know exactly where the business stands, the cost and results of methods that have been used to stimulate it and the places where stimulation is needed. The business general fighting a competitive battle must have at his command all possible records of needs, results and resources so that he can base his strategy on known facts and use with maximum efficiency the forces at his command.

SUMMARY OF STEPS IN THE MARKETING CAMPAIGN

STUDY OF THE PRODUCT
SELECTION OF SELLING APPEALS

STUDY OF THE MARKET
DETERMINATION OF SELLING POLICIES
- Trade channels
- Method of appealing to buyers—by salesmen or by mail
- Prices
- Sales in bulk or in containers
- Trade-marks and packages
- The use of advertising, and its purposes
- Exclusive agencies *versus* general distribution
- Credit
- Guarantees
- Service

ORGANIZATION OF MARKETING PROCEDURE
- Charting the cost of marketing
- Organizing the sales force
- Organizing the advertising
- Coordinating production, personal salesmanship, and advertising
- Getting Distribution
- Obtaining dealer cooperation
- Maintaining marketing records

REVIEW

What are included under marketing policies and marketing procedure?

Discuss the influence of custom upon trade channels.

Why is a manufacturer averse to establishing his own chain store as a trade channel?

Describe the methods by which the usual trade channels are reached and the advantages of each method.

How shall a manufacturer determine to what extent he shall offer credit?

Discuss the question of guarantees.

What is meant by service and what value has it to the manufacturer?

How would you prepare a budget to determine the cost of marketing?

How should sales records be kept?

CHAPTER XIII

TRADE-MARKS AND PACKAGES

1. *Value of trade-marks.*—A trade-mark may be a business asset of great value. Its first purpose is to identify a manufacturer's products, but it may become a symbol of the good-will that results from the quality of his goods and from his fair dealing. A trade-mark is a manufacturer's attestation of pride in his product—his affidavit that his goods are worthy to go out from the factory carrying his mark of approval. It is not necessary that a product be advertised in order to make the problem of selecting and protecting the trade-mark an important one. Manufacturers gave evidence of faith in their products by using marks to identify them long before the days of modern advertising. Advertising, however, has increased the importance of trade-marks. An advertising manufacturer loses much of the value of his publicity unless consumers can readily identify his goods and unless in the public's mind every thought of these goods is immediately associated with some word or image that stands for this product and this product alone.

A product may have real distinction and yet not

be recognizable in the market. A trade-mark provides the means of recognizing distinction. The trade-mark is the connecting link between the manufacturer and the ultimate consumer. Just as an honored name of an individual stands for certain qualities of mind and of heart, so an honored trade-mark in commerce stands for the commercial honor and manufacturing skill that are at the foundation of every successful manufacturing business.

2. *When technical advice is needed.*—Trade-mark rules and requirements abound in technicalities, but it is not our purpose to deal with these details. A manufacturer who faces the task of selecting or of protecting his trade-mark will be unwise if he does not enlist skilled legal assistance. A little knowledge of trade-marks is a dangerous thing if it is relied on where money and reputation are at stake. Yet there are some simple trade-mark facts that every business man should know. By knowing them, he will be able to avoid many errors and he will be able to cooperate intelligently with the expert counselors whom he should consult on all his major problems of trade-mark procedure.

3. *What is a trade-mark?*—A trade-mark has been defined by the courts as "any sign, mark, symbol, word or words which indicate the origin or ownership of an article as distinguished from its quality, and which others have not the equal right to employ for the same purpose. In its strictest sense it is applicable

only to a vendible article of merchandise to which it is affixed." Another judicial opinion says that "a trade-mark is a mark by which the wares of the owner are known in trade. Its object is twofold; first, to protect the party using it from competition with inferior articles; and, second, to protect the public from imposition. . . . The trade-mark brands the goods as genuine, just as the signature of a letter stamps it as authentic."

4. *Difference between trade-marks and patents.*—Some people have the mistaken notion that a trade-mark is like a patent—that it is an exclusive right to an idea or a design granted to the inventor for a term of years, with the purpose of rewarding him for his ingenuity. Patents and trade-marks are entirely different things. A patent-right is solely the creature of statute-laws—it is a monopoly granted in order to encourage inventive ingenuity. The right to use a trade-mark is not acquired thru the force of any statute; it arises thru *use* alone. No statute or common law can create a right to a trade-mark; the law can only define the right and help to protect it. The law takes cognizance of trade-marks not so much to protect the user as to protect the public—to secure the public from being imposed upon by the attempt to foist upon it a spurious article in place of a genuine one that is in demand. While a patent will be granted for a mere idea that may never be incorporated in an article of commerce, a trade-mark does

not even exist until it has been affixed to vendible merchandise which has actually passed from seller to buyer.

5. *Technical trade-marks.*—Not every kind of "sign, mark, symbol, word or words" used as a trade-mark entitles the user to protection against infringement. It would be unjust and against public policy to protect any one in the exclusive use of certain kinds of marks. During many years of trading in this country, and in England before the United States were formed, the common law gradually built up classifications and rules to guide judges in distinguishing between marks that carried with them an exclusive property right to the user and marks which it was against public policy for the courts to protect. The former became known as technical trade-marks; the latter are really not trade-marks at all, altho, even without any exclusive property right in them, they are often used by manufacturers.

6. *Purpose of trade-mark statutes.*—When commerce in manufactured goods was small and trade-marks were few in number, the common law sufficed to protect manufacturers and the public. With the development of the use of trade-marks, it became advisable for Congress to provide regulations which would define the rights of owners of trade-marks, place the burden of proof when controversies arose and establish procedure and penalties in trade-mark litigation. Several laws have been passed with this

purpose. We are to consider here only their basic principles.

7. *Effect of registration.*—Underlying all trade-mark legislation is the principle that the registration of trade-marks with the Patent Office at Washington gives to the owners certain privileges not given to owners of unregistered marks. Registration of some classes of trade-marks may be more favorable to the owner than registration of other classes of marks. In general, in the case of the most favored classes of trade-marks, registration is prima facie evidence that the owner of the mark has the exclusive right to it thru prior and continued use. This prima facie assumption of prior and continued use may be rebutted by evidence to the contrary but the burden of proof is on those who contest the right. Registration also gives certain advantages with respect to jurisdiction of courts, necessity of proving damages in cases of infringement, extent of injunctions and amount of damages that may be awarded. To obtain the advantages of registration the owner of a registered trade-mark should use in connection with the mark either on the product itself, or where that is not practicable, on the container, the phrase "Registered in U. S. Patent Office," or the shorter form, "Reg. U. S. Pat. Off."

8. *Registration not necessary for protection.*—Altho registration is usually sought by owners of marks that are suitable for registration, a word or

words or symbol may be strictly a technical trade-mark, subject to the protection of the courts like any other property right, and remain unregistered. The United States Supreme Court has said:

> The right to adopt and use a symbol or device to distinguish the goods or property made or sold by the person whose mark it is, to the exclusion of use by all other persons, has long been recognized by the common law and the chancery courts of England and this country. . . . It is a property right for the violation of which damages may be recovered in an action at law, and the continued violation of it will be enjoined by a court of equity with compensation for past infringement. This exclusive right was not created by the act of Congress, and does not now depend upon it for its enforcement.

Altho the notice of registry must not accompany an unregistered trade-mark, the phrase "Trade-mark" may be used in connection with the symbol or device.

9. *General trade-mark requirements.*—A technical trade-mark, carrying with it property rights which the courts will protect, must be an arbitrary symbol, or word, or words, or a combination of a device and wording, not obviously descriptive of the commodity to which it is to be applied. It is against public policy to let any one arrogate to himself the exclusive right to words, whether misspelled or not, that are descriptive—for example "Best," "Kantleek," "Spearmint," and "Naphtha." The trade-mark must be unlike any other trade-mark already in use, and *applied to the same class of goods.* A manufacturer making Acme paint can not keep a tobacco manufacturer from making Acme cigarettes. A trade-mark, to be protected, must not resemble the trade-mark of a competitor or of a potential competitor to such an extent that the buying public is likely to be deceived or confused by the resemblance. It must be actually used in lawful trade (it can not even be registered until products or containers carrying the mark have passed in interstate sale), and it must be of such a character that it may be affixed, printed upon, woven, sewed, branded or otherwise impressed upon the product or the package. If the trade-mark is the business name of a person or firm, it is entitled to the fullest protection of the trade-mark statutes only when written in some distinctive manner, or in association with a portrait, or in autographic form.

10. *Approved kinds of trade-marks.*—To fulfil commercial requirements a trade-mark should be easy to pronounce, easy to remember, easy to spell, simple in design, attractive in sound and appearance, and suggestive (but not descriptive) of the good qualities of the merchandise. Few trade-marks fulfil all these ideal requirements. Most successful trade-marks are derived from the following classes: *coined words*—Keds, Kodak, Celluloid, Vaseline; *symbols*—the Baker chocolate girl, the Prudential's Rock of Gibraltar, Dutch Boy for white lead; *combinations of words and symbols*—Gargoyle motor oil, Black Cat hosiery; *portraits*—Smith Brothers cough drops, Mennen, the Saturday Evening Post's portrait of Benjamin Franklin; *fanciful words,* not descriptive,

but containing a suggestion of the use or quality of the product—Springstep rubber heels, Velvet tobacco, Ivory soap, Big Ben clocks; *historical or mythological characters*—Apollo pianos and other articles, Minerva yarn; *initials or arbitrary numbers*—B. V. D. underwear, 48-10 air hose; *Distinctive method of showing name of person, firm or corporation*—notably the signature of Thomas A. Edison.

11. *What a trade-mark should not be.*—A technical trade-mark, subject to the protection of the courts, must not be so near like another known trade-mark owned and in use by another, and appropriated to merchandise of the same descriptive qualities, as to be likely to mislead an average individual; it must not be the insignia of the Red Cross, or the flag or coat of arms of any foreign nation, the United States, of any state, or of any municipality; it must not be any design or picture which has been adopted by a fraternal society as its emblem; it must not be the portrait of a living individual unless used with his permission, nor of any individual, living or dead, if the use would be contrary to public policy; it must not consist of scandalous or immoral matter; it must not be a geographical name or term; it must contain no misrepresentation of the quality, composition, character, origin, or nature of the commodity with which it is used; and, as stated before, it must not be descriptive. Color, except in connection with some definite, arbitrary design, is not the subject of monopoly as a trade-mark.

Falling within the general prohibitions listed in the preceding paragraph there are many words, devices, and symbols used as trade-marks and actually registered as such, or used and protected without registration. This anomalous condition is due to four facts: (1) Under certain acts of Congress registration of almost any kind of mark has been permitted as a mere record of a claim to prior use, without necessarily carrying with it other important rights or privileges; (2) under other acts, a mark which could not otherwise be protected under the trade-mark statutes, if it has been in use for a specified period may be entitled to all the privileges of registration; (3) the interpretation of the prohibition against descriptive marks, for instance, has varied from time to time; (4) long usage may have entitled the owners to protection against unfair competition without regard to trade-mark law.

12. *Difference between infringement and unfair competition.*—The distinction between infringement of a trade-mark and unfair competition has been clearly pointed out by judicial decision:

> An infringement of a trade-mark consists in the use of the genuine [mark] upon substituted goods or of an exact copy or reproduction of the genuine, or in the use of an imitation in which the difference is colorable only, and the resemblance avails to mislead so that the goods to which the spurious trade-mark is affixed are likely to be mistaken for the genuine product; and this upon the ground that the trade-mark adopted by one is the exclusive property of its proprietor, and such use of the genuine, or such imitation

of it, is an invasion of his right and property. Unfair competition is distinguishable from the infringement of a trade-mark in this: That it does not necessarily involve the question of the exclusive right of another to the use of the name, symbol, or device. A word may be purely generic or descriptive, and so not capable of becoming an arbitrary trade-mark, and yet there may be an unfair use of such word or symbol which will constitute unfair competition. Thus a proper or geographical name is not the subject of a trade-mark, but may be so used by another, unfairly producing confusion of goods, and so come under the condemnation of unfair trade, and its use will be enjoined.

13. *When trade-marks can be sold.*—A trade-mark can not be assigned or its use licensed, except as an incident to a transfer of the business or property in connection with which it has been used. The object of a trade-mark is to indicate, by its meaning or association, the origin or ownership of the article. To permit the sale or transfer of a trade-mark as an abstract right, apart from the article manufactured or apart from the business and good-will of the original owner, would be likely to be productive of fraud upon the public.

14. *Trade-marks of patented articles.*—When an article has been patented, the name, whether it be arbitrary or that of the inventor, which has become the identifying and generic name of the thing patented, passes to the public with the cessation of the monopoly which the patent created. When another avails himself of this fact, he can use the generic designation freely, but on the specific condition that he must avoid any possibility of deception by accompanying the name with such indications that the thing manufactured is the work of the one making it, as will unmistakably inform the public of that fact. Any one can use the original Singer patents and make and advertise a Singer sewing-machine, but he must so prominently mark his product with his own name that no one will be deceived into thinking it the output of the original Singer Company.

15. *Loss of trade-mark rights.*—The property right in a trade-mark arises solely from its use to show the origin of goods. If it ceases to be used by the originator, it may be appropriated by another. To permit appropriation by another, the abandonment by the originator must be intentional. What constitutes intent to abandon is a matter for the courts to decide in each individual case. Exclusive rights to a trade-mark may be lost, without intent to abandon, by an unreasonable delay in bringing suit for infringement, or where there has been such technical or actual acquiescence in infringement as to make the relief asked for inequitable to others having intervening rights. The right to relief against infringement may be lost when the owner of a trade-mark indulges in material misrepresentation constituting a fraud on the public. The advertising of a lithia water as "bottled at the spring" when in fact it was bottled at a city warehouse was considered as such misrepresentation as to deny to the owner of the trade-mark any relief from infringement.

16. *Trade-names.*—A trade-name, as distinguished

from a trade-mark, is a word or combination of words serving to distinguish a certain manufacturer or merchant and his specific merchandise, which, altho not capable of exclusive appropriation or registrable in the Patent Office as a technical trade-mark, will nevertheless be protected within certain limits by the courts from general use by competitors thru the doctrine of unfair competition. The word Wanamaker's is a trade-name and not a trade-mark.

17. *Packages.*—Second only to the trade-mark as a means of providing sure identification of the genuineness of a product is the package in which it is sold to the consumer. The modern practice of packing many goods at the factory in cartons for the consumer has for its first purpose to insure the freshness and cleanliness of the product and to reduce the expense and waste incurred in handling it in bulk. Its second purpose is to identify goods, particularly those that from their nature can not readily carry a trade-mark, and to make it possible for the package to go a long way toward selling itself.

18. *Suitability of the package.*—A carton or package should have two qualities, suitability and individuality. In designing it, the manufacturer should look ahead thru all the processes of distribution and should visualize the treatment it will receive at the hands of all classes of dealers and transporters until it reaches the final consumer. The package should have suitable strength to remain intact and to prevent damage to the contents during its progress thru all

the channels of trade. The material from which it is made should provide protection and at the same time should be economical. Packaging is not justified if it results in a net increase of cost to the consumer. The shape and size should receive careful study. From the standpoint of the dealer and transporter, the package should be convenient to handle, to store and to stack. If the product is to remain in the container while being used in the household, proper shape and size are highly important; a carton that is too bulky or of awkward shape will kill the sale of an otherwise admirable commodity. The color of the carton has a practical aspect; particular inks may adversely affect, or be affected by, the goods in the carton, and a carton that is to be handled frequently must be designed to eliminate soiling as much as possible.

19. *Individuality of the package.*—A package is an advertisement as well as a container. It should be as distinctive as the trade-mark itself. Simplicity should always be the goal of the designer. Many designs adopted years ago have acquired a degree of recognition value that makes their retention advisable, and yet are so crude and complicated as to make it difficult for them to compete with newer products in more attractive packages. The design should possess the quality of strength or of daintiness in accordance with the nature of the contents and the class of people to whom it is intended to appeal. The design should be sufficiently striking to arrest the eye; it will com-

pete for the attention of the customer and the salespeople with many other products on the dealer's shelves. The essential features of the design should be repeated on the front and back, and possibly on the ends of the carton as well, to insure proper display no matter how the dealer stacks the packages. Wherever possible the trade-mark should be shown on the package as well as on the product itself. It is advantageous to use the same general design on individual cartons, on display cartons, and on the packing cases—uniformity of all labels helps to impress the design on the public. Labels and cartons for families of products are most effective when they all conform to a certain type, possessing perhaps the unifying feature of a common color or combination of colors, and differing only to the minimum extent that the individual names and products may require.

REVIEW

Of what value is a trade-mark to a manufacturer?
What is the object of a trade-mark?
What differences exist between trade-marks and patents?
What rights and privileges do owners of registered trade-marks secure?
Discuss the general requirements of a trade-mark. What qualities should it have to meet commercial needs?
Why are goods put up in packages?
What qualities should the carton or package have?

CHAPTER XIV

EXCLUSIVE AGENCIES

1. *Selective distribution.*—One of the important questions that must be answered by the manufacturer who sells thru dealers is whether he will sell his goods (1) thru one exclusive agency in a community or section of a community; (2) thru carefully selected dealers or classes of dealers; or (3) thru any dealer in a community who may be willing to handle his product. The second of the three methods is probably the most common. Many manufacturers, with no intention of recognizing the exclusive agency principle, pick their retail outlets, keeping their goods out of the hands of certain dealers whose activities in support of the goods might antagonize other dealers whose support is especially desired and sought by the manufacturer. In any discussion of the exclusive agency principle manufacturers who do this are to be classed with those who follow the third method of selling thru any dealer who will stock their goods. Selling thru exclusive agencies, as the term is commonly understood, is not a matter of selecting dealers by classes; it is a matter of selecting dealers by geographical location.

2. *What is an exclusive agency?*—Strictly speak-

ing, an exclusive agent is a dealer who alone in his town or city or in his section of a city handles a specific brand of goods. The purpose of the manufacturer is to give him exclusive control over distribution of the goods thruout the entire territory that the dealer's activities can effectively cover. It is this practice, as compared with all other methods of selling thru dealers, that we are to consider in this chapter. The exclusive agency principle may be applied either to wholesale or to retail distributors. Our discussion will include both groups.

3. *Some legal questions.*—In one kind of exclusive agency arrangement, the manufacturer and dealer enter into an agreement that binds the manufacturer not to sell thru any other dealer in the community and binds the dealer to give his best attention to the manufacturer's goods. Normally there is no legal objection to an agreement or understanding of this sort. At times, however, the agreement has gone further; the dealer has agreed that he will not handle any competing line of goods. Bearing on this practice, the Clayton Anti-Trust Law, passed in 1914, contains the following clause:

> It shall be unlawful for any person . . . to lease or make a sale or contract for sale of goods . . . on the condition, agreement, or understanding that the lessee or purchaser thereof shall not use or deal in the goods . . . of a competitor or competitors of the lessor or seller, where the effect of such lease, sale, or contract for sale, or such condition, agreement, or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce.

This clause does not definitely prohibit agreements on the part of exclusive agents not to handle competing lines; it prohibits them only when the effect "may be to substantially lessen competition, etc." Just when this may be, no one can say with certainty. Each situation as it arises must be decided on its own merits. The wording of the law suggests a certain public attitude toward so-called binding or tying contracts which manufacturers and dealers should not disregard. No manufacturer should contemplate any kind of exclusive agency arrangement without the assurance by competent legal counsel that he is acting well within his rights. Statutory restrictions on business have increased so rapidly in scope and in number that many of the legal prohibitions are not yet supported by universal public opinion even among right-thinking and wholly honorable business men. Statutes have made illegal many things about which there still is honest difference of opinion as to their morality and their beneficial or deleterious effect on the nation. A business man can no longer afford to justify his actions by his mere intent to deal honestly and fairly with the public. He must be sure he is not violating some recently written code, based either on political expediency or on some real change in basic normal standards to which he must learn to adapt his own thoughts and his own practices.

4. *Exclusive wholesale outlets.*—When a manufacturer selects one jobber as his exclusive wholesale outlet in the section that the jobber covers, his purpose usually is to get a degree of support that he could not expect otherwise. Jobbers have many things to sell; they are not inclined to give special attention to brands of goods handled by competing jobbers as well as by themselves. If a jobber has the exclusive sale of a product, he may be induced to get behind the goods with real sales effort. A manufacturer of a new product that is unknown to retailers and dealers may be unable to get jobbers generally to stock it. If he gives the exclusive sale to but one jobber in a section, and if the goods really have merit, he can at times get a foothold in the market which would be obtainable only with great difficulty otherwise.

5. *General wholesale distribution.*—The chief objection to exclusive wholesale agencies, from the manufacturer's standpoint, is the limited distribution that usually results. Different retailers have different wholesale connections. One jobber can not sell all retailers, even in his own territory. The manufacturer may be forced to adopt the exclusive representation principle in order to get a start but in many instances this method of selling will not ultimately result in the largest possible development of his business. In deciding for or against exclusive representation he must often balance present expediency against ultimate good. The fact that this plan of selling is used by manufacturers chiefly at the urge of pressing necessity rather than by free choice is evidence of the general dislike of the exclusive agency principle on the part of manufacturers who sell thru jobbers.

6. *Retail shopping lines.*—In deciding to apply the principle of exclusive representation to retail distributors, the manufacturer may be influenced by one of several considerations. A single retail connection in a community or in a section of a community is sometimes held to be desirable when the product to be sold constitutes what is known as a "shopping line." A shopping line is a line of goods that are usually purchased only after comparisons of value and price have been made in several stores. Women's clothing is of this character. So also is nearly everything else in which style plays a large part. If the consumer can be counted on to go from store to store before she finally makes up her mind to buy, the manufacturer may be willing to forego the advantages of general distribution for the sake of getting the real sales efforts of one store behind his line. This same principle applies when the purchase of a product represents a large outlay of money—farm machinery, talking machines, vacuum cleaners, for example. There is no style element in these products, but they are strictly shopping lines. When people can be expected to give much thought to a purchase and to

look carefully into the merits of several possible lines before buying, the exclusive agency method of selling is frequently used and has real advantages.

7. *Influence of size of stock.*—The manufacturer is at times forced to grant exclusive retail agencies because of the amount of capital needed if a retailer is to stock a representative assortment of his goods. A retail grocer is willing to stock a four-dollar case of breakfast food without asking for special consideration or exclusive representation. It is different with the retail furniture dealer who may carry an average stock of one manufacturer's goods valued in excess of a thousand dollars. Normally, if a retailer is to stock a large and expensive assortment of one manufacturer's goods, he seeks that degree of sales insurance which he believes is afforded by an exclusive agency.

8. *Need of special sales effort.*—When the public must be educated to the value of an article, no one dealer can be expected to put much time upon it unless he has assurance that he will get all the business he creates. Office machinery, building material and automobile tires are largely sold thru semi-exclusive agencies, not only because large stocks are necessary, but also because a considerable investment of time, thought and effort is called for if the retailer is really to merchandise the line and to build it up when the agency is granted.

9. *Need of quick turnover.*—Another class of articles is often sold on an exclusive or limited agency

basis in order to assure such rapid sales as will maintain quality. Certain brands of candy are in this class. Candy must be fresh when it reaches the consumer. Retail stocks must be watched closely. There could be no certainty that it would be always fresh if all dealers indiscriminately were allowed to handle it, and if no one representative dealer in a neighborhood had any special inducement to cooperate fully with the manufacturer.

10. *Installation and repair service.*—At times the need for continued assistance by the dealer after the sale is made dictates a policy of exclusive retail representation. It may be that technical knowledge is required to instal the purchase—as in the case of a heating system, for example—or the dealer must carry a stock of repair parts and be prepared at all times to back up the goods even after they have been years in the consumer's service—as in the case of player pianos, automobile batteries, and many kinds of factory equipment. In such cases the manufacturer may either reach the consumer directly thru his own branches, or distribute thru exclusive or limited representatives, who, because of their responsibility for all sales in a given territory, may be expected to give much more time and thought and capital to the line than they would give if they had no large stake in the success of the manufacturer's business.

11. *Exclusive agencies and price control.*—Regardless of the apparent opinion of some courts to the contrary, many a manufacturer has definite proof

that his business in a community is hurt when competing dealers single out his product as a competitive weapon and thus inaugurate an antagonism to the line on the part of other dealers. Selling to only one dealer in a community means entire freedom from trouble of this sort. Court decisions may keep the manufacturer from dictating resale prices even to his one dealer but, even if that dealer sells at his own figure, there will not be the disruption of the market that often results when competing dealers use an advertised line of goods as a price leader.

12. *Value of exclusive agency for new goods.*—The exclusive agency method sometimes seems to be the only possible way of opening new territory, particularly for goods not advertised by the manufacturer. A mere exclusive agency is not ordinarily sufficient inducement by itself to make a dealer take it on. But if the goods are of real merit and value and if the dealer sees a possibility of building up a certain individuality for his establishment, he may be willing to put his efforts behind the line even if it is not advertised. This does not mean that all new goods or all unadvertised goods must be marketed by exclusive agencies. The exclusive agency may be the only possible plan for goods of this class when the investment required is large or when there exist any of the other conditions that are normally associated with the system of exclusive representation.

13. *Variations in marketing procedure.*—It is not to be understood that all articles in the classifications

described in the preceding paragraph are sold only thru exclusive agencies. Marketing procedure is not so ironbound as to require the application of certain practices to certain sets of conditions. If marketing could be reduced to rule and regulation to this degree, there would be no opportunity for the exercise of judgment and discretion. Business has not approached this point, and it is not likely that it ever will. All that can be done as a guide to the solution of the problem of exclusive agencies is to indicate the customary relation of certain practices to specific conditions, to show the value of analyzing both practices and conditions for the purpose of laying down, if possible, broad general principles, and to provide a starting point in the form of a brief catalog of experiences for the manufacturer who is facing the problem of distribution.

14. *General distribution for convenience goods.*—Most manufacturers believe that general distribution produces larger volume of sales than restricted distribution. This is certainly true of low-priced, quick-selling necessities. Most articles of this sort may be classed as "convenience goods," as distinguished from "shopping lines." Convenience goods are usually bought without comparison of values, for example, many small articles in a grocery stock, dry-goods, small items of men's clothing, drug sundries, toilet articles, shelf hardware, tobacco, etc. A customer is influenced to buy convenience goods at one store in preference to another by (1) the convenient location

of the store; (2) the impulse of the moment, suggested perhaps by the sight of a desired article in a window; (3) custom, which holds the trade of a customer after it has been once attracted; (4) the desire to buy a specific brand which is on sale only in certain stores.

Convenience goods are best sold when they are handled by many retailers, because, if one retailer does not have them, the customer is not likely to shop around until he finds them. Some one has said that "exclusive articles require an exclusive agency, but an article of general use, with nothing exclusive in its nature or appeal, requires general distribution; an exclusive agency for an article of general demand is a very expensive thing for the manufacturer, because it invites substitution." The purpose of the advertising manufacturer is partly to make his goods of universal consumer interest; every manufacturer would like to have his product as generally desired as Ivory soap. Different manufacturers can accomplish this only to varying degrees but it is certain that the accomplishment of the purpose is hindered if distribution is so thin as to encourage the substitution of competing products.

15. *Do exclusive agencies push sales?*—Advertised lines are not the only ones that are normally best sold without exclusive agencies. Even outside of so-called convenience goods there are many articles pushed into general distribution by their manufacturers, be-

cause of a belief that even the passive distributing efforts of a large number of dealers will show a larger sales volume than could result from the more active support of a few distributors. This attitude is partly induced by a belief that an exclusive agency does not always buy the dealer's hearty support. Probably the belief is justified in some cases. Many dealers handle too many things to permit themselves much time to push particular lines of goods. On the other hand, it is unquestioned that when an agency is properly placed, and when the pushing of the exclusive line of goods is as advantageous to the dealer as it is to the manufacturer, real dealer cooperation can be expected.

16. *Why dealers like exclusive representation.*—When a manufacturer refuses to grant exclusive agencies, believing that general distribution will result in larger volume of sales, he must be prepared to use with dealers some other arguments than the purely selfish one of greater sales for himself. Speaking generally, dealers like exclusive agencies. They like them for many reasons. For example, the thoughtful dealer dislikes cut-throat price competition as much as the manufacturer dislikes it; the dealer as well as the manufacturer knows that if he has an exclusive agency, price cutting is not a form of competition to be feared. Then, too, if the manufacturer advertises, the dealer likes to feel that he alone in the community will reap the reward of the advertising.

Or, if the dealer himself advertises the goods, he does not like to feel that he is simply building up business for his competitor.

Dealers in many cases like their own private brands. If a dealer has an exclusive agency, the manufacturer's brand becomes his own private brand in a limited sense as far as his community is concerned. There is real prestige, too, resulting from the exclusive handling of some well-known make of clothing, pianos or filing cabinets. The good dealer is making constant efforts to give distinction to his establishment; an exclusive agency for standard goods adds to that distinction. An exclusive agency for one article will bring to a store people who would not otherwise trade there. A man may habitually buy his cravats, collars, and underwear at one store; yet if another store attracts him with its offering of nationally advertised outer clothing, it has a chance to win his patronage in the "convenience lines" as well. Finally, the dealer having an exclusive agency feels that the manufacturer gives more careful attention to his orders, complaints, and suggestions, and in general values his services more than if the manufacturer had other dealers in the community.

17. *When general distribution is best for retailers.* —The natural bias of the dealer toward exclusive agencies is matched by a natural bias of manufacturers away from them. This does not mean that the interests of dealers and manufacturers are not alike. One can not permanently prosper unless the other

does. We have seen that in many circumstances the manufacturer realizes and uses the power of the exclusive agency. When he does not, believing that exclusive agencies would retard his sales, it can usually be proved that his decision is best for his dealers as well as for himself. A chain of New York men's clothing stores, after having the exclusive sale of a well-known brand of hosiery for several years, reported an actual increase in their own sales of this hosiery after 140 other dealers in the city had been given the right to handle the same goods. Their reasoning was as follows:

> If we alone after hammering Blank Hosiery as hard as we possibly could for four or five years had been able to build up the Blank business in New York, which we were doing, it was reasonable to suppose that 100 or 150 energetic retailers plugging and pushing Blank Hosiery would surely produce better and quicker results than one dealer pushing the product and the others pounding because they did not carry it. It simply meant a choice between the 150 stores in New York in which a man or woman could be told the merits of Blank Hosiery, or only one store; one store pushing Blank and every other store with something "just as good."

There is the argument concretely and briefly expressed. It is a good argument in many, many cases. A dealer's sales of any one item depend partly on his own efforts to sell that item but partly too on the number of people who know and want the item. Even the most extensive advertising ever devised could not sell as many Arrow collars for an exclu-

sive dealer in a large community as are now sold for him because of the almost universal interest in those goods. Does anybody suppose that a grocer with an exclusive agency for Campbell's soups could sell more of them than he now sells with nearly every grocer in the country stocking them and pushing them? Would safety razors have ever made a nation-wide market for themselves if but one or a few dealers in a community had had the privilege of distributing them? For countless kinds of goods the dealer who insists on an exclusive agency definitely limits his own market just as much as he limits the market for the manufacturer. It is the realization of this fact that gives to the manufacturer seeking general distribution the intelligent cooperation of thousands of retailers in all lines of merchandising.

18. *Uncertain tenure of exclusive agencies.*—A final theoretical argument against the exclusive agency is the unquestioned fact that exclusive agencies once granted are not always permitted to remain undisturbed. If an exclusive distributor does not give proper support, the manufacturer is justified in finding one who does. Or, if a market has outgrown the conditions that made the exclusive agency necessary at first, who shall say that a manufacturer is not justified in abandoning exclusive agencies for general distribution when he believes that the change will best serve both his dealers and himself? These contingencies make many thoughtful dealers look askance at exclusive agencies and they play into the hands of

the manufacturer who occasionally has to refuse a demand that he grant exclusive representation for his products.

19. *The modern trend.*—Except in outstanding cases where manufacturers unquestionably profit from exclusive agencies, the system of exclusive or limited representation, generally speaking, provides more advantages for the dealer than for the manufacturer; and the advantages for the dealer are often not what they were before the days of modern advertising. The tendency seems to be away from exclusive agencies. The increasing use of national advertising is bringing manufacturers more and more to realize the advantages of the widespread distribution which enables readers of advertising to find advertised goods with the least possible difficulty. The growing interest of dealers in advertised goods is leading them to recognize that general selling effort behind a line means maximum demand for it and maximum sales for everybody.

REVIEW

What is meant by selling thru an exclusive agency?

What advantages may be gained by a manufacturer in giving a jobber exclusive sale of a product?

What is the manufacturer's objection to an exclusive wholesale agency?

Discuss exclusive agencies as applied to retail shopping lines.

When is it advisable or necessary to grant exclusive retail agencies?

Contrast the manufacturer's attitude with regard to general distribution with the dealer's attitude of exclusive agencies. How may they be made to harmonize?

What is the modern tendency in regard to exclusive agencies?

CHAPTER XV

THE PRIVATE BRAND PROBLEM

1. *Importance of the problem.*—One of the things that seriously complicates the relations between manufacturers and distributors is that jobbers and retailers invade the field of the manufacturer. The historic function of dealers is to distribute goods—not to make them. Of late years distributors of all classes have in many instances taken upon themselves many of the manufacturer's functions. Probably most distributors remain distributors exclusively but there are many cases in which jobbers or retailers manufacture part of the things they sell, or, by putting their own names or brands on goods made for them, assume the manufacturer's responsibility so far as other dealers and consumers are concerned. The manufacturer seeking a wholesale or retail outlet may be unwilling to put his product at the mercy of a distributor who pushes his own competing brand. Every jobber must face the problem of whether he will act strictly as a distributor with only the distributor's responsibility, or whether he will to any extent enter the manufacturing field. The retailer has his own problem in connection with the possibility of private-branding any of the merchandise he sells, and he

also has the problem of adopting a policy with respect to the private brands of goods that the jobber offers to him. The consumer's interest is in price, quality, and service only; we shall see that the private brand controversy is by no means alien to his interests.

2. *Private brands that harm no one.*—There are certain cases of private branding of goods by distributors that do not give rise to complications in marketing methods. If a business house starts out as a distributor and then expands as a manufacturer to such an extent as to be able to make all of the articles it sells, its position is precisely that of the house that is primarily a manufacturer; it may sell to other dealers or direct to consumers. In either case its competitive position is no different from that of other manufacturers. Nor do any marketing complications arise when a business house manufactures one or more lines of goods and then handles other non-competing lines as a jobber or retailer. Some kinds of manufacturing or semi-manufacturing have so long been a recognized function of the wholesale house that no question arises about them. Examples are the canning of fruit and vegetables and the importing, sorting and packing of bulk goods such as dates, figs, nuts, etc. It is only within recent years that manufacturers or importers have begun to confine their operations to one or more of these lines and, by advertising and doing business on a national basis, have threatened the traditional supremacy of the wholesale grocer in these fields.

3. *Distributors as manufacturers' competitors.*—The private brand problem arises when the jobber or retailer, by putting his own name or brand on certain goods, comes directly into conflict with similar goods branded by the manufacturer which the manufacturer relies on the jobber or retailer to distribute. The situation is illustrated by the hardware jobber who handles many goods trade-marked by the manufacturer but who also pushes similar competing goods carrying his own label. It is also illustrated by the department store that will sell goods with a manufacturer's label only when the consumer insists on it and always gives chief attention to the sale of its own privately branded merchandise. The solicitude of manufacturers about entrusting the distribution of their goods to dealers who push their own competing lines is by no means confined to those who advertise. It is true, however, that national advertising has so emphasized the importance of brand name good-will that the private brand problem has become largely a controversy regarding manufacturers' advertised brands *versus* dealers' private brands.

4. *Why manufacturers deal with private brand distributors.*—Many manufacturers voice no objection to selling their goods thru jobbers or retailers who push their own competing private brands. A manufacturer who is relatively new in the field and who has not had time to establish any great amount of good-will for his own brand is often willing to let his goods run the risk of competition with distributors' private brands, just for the sake of getting the distributor to put them in his price-list or on his shelves. Without intensive selling or advertising efforts of his own, he can hope for only scattered orders at the best and he may think himself fortunate to obtain any assistance from jobbers or retailers. He suffers, of course, from the private brand competition but he has no recourse if he is not in a position to create any real interest in his products.

At the other extreme is the strong manufacturer with a nationally known product and trade name who fully realizes what he believes to be the unfairness of private brand competition but who so intensively cultivates consumer good-will on his own account that private brand competition does not seriously interfere with his market. Many of these manufacturers sell thru jobbers or retailers who have their own private brands. They may object to the private brand principle and practice but they are content to utilize the established distributing machinery regardless of their objections to some of its parts.

5. *Manufacturers who make private brands.*—In nearly every line of business there is a group of manufacturers who are willing to keep their names in the background and who sell all their output to jobbers or retailers under the distributors' own labels. This is sometimes the easiest way for a manufacturer to find a quick and sure outlet. It involves the minimum of selling cost to the manufacturer and, by pro-

viding early in the season for capacity production, it may reduce producing costs as well. The manufacturer selling exclusively in this way runs certain risks. The first is the risk of losing his entire market or a large part of it over-night. His sole hold on his customers is price and quality. If there is real or expressed dissatisfaction with either, his customers can quickly switch to some other source of supply and leave him to develop wholly new markets. Another risk is that the manufacturer will find himself continually subjected to price and service demands from his customers until they reach a point where the business is unprofitable to him. Of course any manufacturer runs both of these risks but the manufacturer of private brands for distributors encounters them to an unusual degree.

There is another type of manufacturer who ordinarily sells his goods under his own name and label, but who may have produced more than his normal market can consume, and who finds himself with a warehouse full of goods he can not move. If he can find some distributor who will take these goods provided the manufacturer's label is removed and the distributor's put in its place, the manufacturer considers the business "velvet"; he gets trade he could not get otherwise and he does not believe he is injuring himself by the transaction. Allied to him is the manufacturer with but one quality of goods, who habitually brands some of them himself and sells the remainder to distributors with the distributors' own

labels on them. Both of these practices are common. The arguments in favor of them are obvious but they are chiefly arguments of expediency..

The manufacturer who will not sell his goods without his own name or brand on them is actuated by the belief that his interests are best served by his retaining responsibility for the quality and service of the goods all the way down to the ultimate consumer. Following this principle may at times cause the loss of immediate sales but the idea of selling only one-quality-one-brand merchandise has built up many very large and successful businesses. Back of it lies the belief that the manufacturer who is trying to create good-will for his own brand ultimately harms himself if he aids in putting on the market other brands of goods to compete with those that carry his own name.

Finally, among the manufacturers who make privately branded goods for distributors is the type of producer who puts his own brand on his first quality goods but who is willing to put distributors' labels on his second quality or factory damaged output. Some opponents of private brands charge that most privately branded goods are obtained in this way. The charge is not true. There are countless lines bearing a jobber's or retailer's private brand that are of just as high quality as any that are branded and advertised by a manufacturer.

6. *Are private brands unfair?*—The manufacturer's criticism of the distributor, either jobber or retailer, who ostensibly handles the manufacturer's

own branded goods and at the same time pushes competing goods carrying his private brand, has chiefly to do with what he believes to be the unfairness of the practice. There would be no unfairness if, for example, the wholesale drug salesman should say: "Here are a dozen different brands of face cream, among them our own; take your choice." He seldom operates in this way. Usually he has orders to push the private brand and he is given a larger commission when he does so. There is no unfairness also if the private brand jobber or retailer refuses to handle goods of manufacturers which compete with his private brands. Few distributors' businesses are however, conducted in this way. The charge of unfairness usually rests on the fact that the jobber believes he should be strongly supported, as a legitimate and necessary middleman, by the manufacturer and that he then turns around and competes, as a manufacturer, with the manufacturers whose support he solicits. The private brand retailer stands in a little different position. Unlike the jobber, he is not so continually fighting for his place as a middleman and he has little need to solicit support from the manufacturer. It is charged, however, that there is an element of unfairness even in his case when he keeps manufacturers' brands under the counter and pushes goods with his own label. Regardless of whether these practices are unfair on the part of the jobber or the retailer, it can not be denied that they frequently cause the manufacturer to consider the possibility of reaching the retailer or the consumer direct.

7. *The cost of private brands.*—The manufacturer opposed to private brands points out that the jobber is in business to serve the retailer, and the retailer to serve the consumer. If retailer or consumer wants a manufacturer's brand, the distributor who serves him is not giving true service if he does not provide what is wanted. Furthermore it is said that the time spent by the distributor in pushing his own brand when a manufacturer's brand is wanted and asked for appreciably increases the cost of doing business and makes for higher prices to retailer and the consumer. This is probably true in some cases and not true in others. The individual jobber or retailer who pushes his own private brands may or may not be giving real service and he may or may not be helping to raise selling costs and selling prices. It depends on the relative quality of the goods, on the actual dealer and consumer interest in the different brands and on many other things that vary in individual instances. One general statement is, however, justified. So far as the jobber is concerned, it can not be denied that, to the extent he pushes his own brands in competition with manufacturers' brands, he is helping to break down the manufacturer-jobber-retailer system of distribution upon the continuance of which his existence as a jobber depends. Without any question the pushing of jobbers' private brands has induced many manufacturers to seek and find direct contact with retailers and, to a very much less extent, retailers'

private brands have encouraged the development of manufacturers' own retail outlets. The different degree of influence of private brands on the status of jobbers and retailers is due partly to the fact that most manufacturers must use established retail distributors whether they wish to or not and partly to the fact that jobbers are much more committed to private brands than are retailers.

8. *Private brands and profits.*—Some jobbers and retailers own their own factories and actually manufacture their private brand goods; others order goods with their own labels on them from independent manufacturers; still others buy package goods without labels and attach their own after the goods are in their warehouses. In all these cases the distributors go before the public as manufacturers and with the responsibility of manufacturers. Probably the chief purpose in every instance is to make more profit. It is generally said that the distributor's private brands cost him less than similar brands that are advertised by their manufacturers. When this is true, it is usually because the actual manufacturer of the private brand goods has a very low selling cost or because the distributor, if he is a real manufacturer, charges himself at first only with the factory cost of the goods. It has not been proved, however, that the entire cost of his own private brands to a distributor is less, speaking generally, than the cost of manufacturers' brands. The selling cost must be added to the price paid by the distributor. The distributor,

and of course the consumer, must pay the cost of creating demand, regardless of whether that cost is incurred partly by the manufacturer or entirely by the distributor.

9. *The question of quality.*—Sometimes the private brand distributor justifies his private brands by asserting that they have more merit than goods bearing the manufacturer's trade-mark. On the other hand, opponents of private brands have sometimes contended that "the jobber's sole purpose in putting out private brands is to make more money—to get goods for the minimum price and to sell for the maximum; and consequently quality is likely to be a secondary consideration." Neither contention is right. No one has a monopoly on quality. The man interested in building a permanent business must jealously guard quality, whether he is a manufacturer, jobber or retailer. Reputable distributors, like reputable manufacturers, are unwilling to put their names on goods without satisfactory merit.

10. *Private brands mean more customers.*—So far as the jobber is concerned, an important reason for private brands is his belief that they will bring him new retail connections. If he advertises the brand and if the brand comes to be demanded by consumers, his salesmen will have less difficulty in opening new accounts than they would have if all they could offer the retailer were the same lines of manufacturers' goods that are also offered by other jobbers.

11. *Jobber wants to control his market.*—A final

argument of the private brand jobber is that with private brands he can control his own business. If a jobber's private brand has proved satisfactory to a retailer's customers and is in demand among them, the retailer is not likely to cut off his source of supply for those goods simply because of friendship for a salesman who has formerly sold them but who has gone over to a rival jobbing house. Furthermore because the jobber is often the sole wholesale distributor of his brand, he can dictate prices and profits without interference by any manufacturer; his market is not likely to be demoralized by price-cutting by other jobbers, which sometimes does demoralize the market for manufacturers' nationally advertised goods that are offered by jobbers as leaders.

12. *The retailer's attitude.*—The retail store that pushes its private brands as far as it can to the exclusion of manufacturers' brands that it also carries, wishes to build up in the mind of the consumer a confidence in the store that will result in the maximum influence for the store in the community. This is a legitimate ambition. Every ambitious retailer wishes to build a prestige which will insure a maximum clientele of satisfied patrons. It is becoming increasingly difficult to accomplish this in a reasonable time without the aid of the prestige attaching to nationally known brands. The great fluidity of population, the increasing means of transportation and communication, the extraordinary growth of transient trade even

in small communities—all these things tend to decrease the opportunity for the individual store to develop a large and permanent following of its own by the use of its own name and its own brands alone and to increase the opportunity for the retail store to add to its influence by carrying and actively promoting the sale of nationally known goods whose merits are established in the minds of consumers everywhere. This matter is considered at greater length in the following chapter.

13. *Should all goods bear manufacturers' names?*—Some interests at various times sought to lessen the influence of private brands if not to eliminate them entirely by attempting to obtain legislative action requiring the actual manufacturer's name to appear on every manufactured article. It is maintained that this will definitely fix responsibility for the quality of all goods and will tend to decrease the number of private brands because dealers will not care to put out their own brands if at the same time they must publish the fact that they are not in all cases the actual manufacturers.

It is difficult to see how a statutory requirement of this sort would be beneficial to any one. Most people understand that many goods privately branded by distributors are not actually made by them. The private branders commonly practice no deception. It could injure them but little if the public were definitely informed that their private brands were

made by some one else. If any distributor did object to publication of this fact, it would be easy to print the manufacturer's name so inconspicuously that few customers would ascertain it. Even if every consumer did know the name of the manufacturer of everything he bought, of what good would this information be to him? If anything goes wrong with the purchase, he looks to the distributor if that distributor has put his name and mark on it. The consumer wants to know who is responsible to him for the thing he buys, not necessarily who manufactures it.

It has not been proved that any legislation is needed or desirable against private brands. Private brands are not wrong in themselves. They are matters of business judgment and not business morals. If there is any public interest involved at all, it has to do only with the ultimate and indirect results of private brands on the stability of the present distributing system. And if they are to any degree an influence toward the elimination of the middleman, the middlemen themselves will certainly awaken to the situation and take steps to correct it long before the public at large has any cause for alarm.

REVIEW

Give some instances of private branding by distributors which do not cause complications in methods of marketing.

When does the private brand become a problem?

What is the attitude of manufacturers toward jobbers or retailers who have competing brands?

Why do some manufacturers make private brands?

Do you believe the private brand to be unfair? Why?

Discuss private brands of jobbers and retailers from the standpoint of (a) profits, (b) quality, (c) customers, (d) markets.

Why have some retailers adopted private brands?

CHAPTER XVI

NATIONAL ADVERTISING AND THE DEALER

1. *Manufacturers' interests in advertising.*—Advertising by the manufacturer is one of the selling influences that loom large in the marketing considerations of manufacturer and dealer alike. When a manufacturer sells thru jobbers or direct to retailers, his decision to advertise or not to advertise must rest on a solution of many problems involving the interests of his dealers as well as of himself. He can not properly reach a decision without knowing the dealers' normal reaction to manufacturers' advertising. If he decides to advertise, he must not only have a definite purpose that he expects his advertising to achieve for him, but he must also believe that the advertising is for the best interests of all factors concerned with the distribution of his products and be able to prove it to his dealers. If he does not advertise, he should be able to marshal sound arguments to meet the demands of dealers that he do his part to create consumer interest in his goods before he seeks the cooperation of dealers who have many things to sell and who can not take the time to tell consumers about his particular products. On the manufacturer's decision to advertise or not to advertise will often depend his selection of sales channels.

It will have a vital bearing on his point of view toward his sales problems, on his relation to the trade and on his choice of many methods that are available in the marketing of a manufacturer's goods.

2. *Dealers' interest in advertising.*—Jobbers and retailers have no more important problems than those involved in a decision to back or not to back goods advertised by the manufacturer. Advertising, perhaps more than any other one selling help, has brought a realignment of dealers' functions and opportunities. Is it a good thing or a bad thing for the dealer? Does national advertising mean manufacturers' domination of the distributing system? Is it something to fight against or to work with? No dealer can take a neutral attitude. He must be for it or against it. Probably no other modern movement in selling is of so great significance to manufacturers, dealers and the public alike as the growth of national advertising.

3. *What is national advertising?*—The term national advertising is conveniently used to refer to the advertising of identified, trade-marked goods by the manufacturer who sells thru dealers. The term is not accurate. The manufacturer may advertise nationally and sell direct to the consumer. The advertising may be merely local or sectional instead of national. Our arbitrary use of the term is its common use, however, and is justified by the need of a simple and generally known phrase to describe the

kind of manufacturer's advertising that is the subject of this discussion.

The problem of national advertising as it affects manufacturer and dealer is not a problem of package goods *versus* bulk goods. Advertising has firmly entrenched package goods. Many bulk goods are still sold but in lines in which packaging is possible non-advertisers and advertisers alike generally use the modern, cleanly, convenient method of selling goods in containers.

4. *Meaning of brand consciousness.*—When a manufacturer sells thru dealers as well as when he sells to consumers direct, his decision to advertise or not to advertise will depend on varying conditions that confront him. First, is there any "brand consciousness" in the minds of consumers? In other words, do the consumers to whom he wishes to appeal ordinarily buy his particular type of product by brand name? For example, relatively few consumers buy furniture by brand name. Automobiles, on the other hand, are always bought by brand name. Between these two extremes there are all possible shades of brand consciousness. It is almost impossible to name any kind of market where the consciousness of brands is entirely absent. But where this consciousness is relatively slight, the manufacturer's decision to advertise or not to advertise is ordinarily one of expediency and not of necessity. If advertising has made little progress in his industry, he may decide not to advertise and still hope, by a policy of

good goods and fair dealing, to get a slow but growing hearing from the trade and to build up a business as satisfactory as that of any of his non-advertising competitors.

5. *Building favorable public opinion.*—If, in an industry that is largely on a non-advertising basis, he decides to advertise, he is actuated chiefly by a determination to build up a favorable public opinion for his goods in the minds of both consumers and dealers. He knows that without quality in his product and fairness in his policies he can never build a large or permanent business but he knows, too, that if he does build his business on quality and fair dealing he can build faster and farther with advertising than without it. If he alone in an industry is teaching consumers to consider the name behind the product his task will be harder than if he had assistance from other manufacturers but his leadership will be all the more assured when he does succeed in getting people to think and talk of Uneeda biscuit, for example, instead of plain soda crackers.

6. *When consumers buy by brand.*—In an industry in which consumers buy usually by brand name, advertising is often necessary if the manufacturer hopes to become a real factor. For example, safety razors, soap, tooth paste and package breakfast foods are almost always purchased by brand. A non-advertising manufacturer in any of these fields could scarcely expect to develop his business to a position of leadership. Of course he can do some business

without advertising but he will find his progress slow and his opportunities for development relatively small. If he wishes to create for his own goods the same favorable public opinion that his competitors have created for theirs he must begin to advertise.

7. *Word-of-mouth advertising.*—In certain industries where there is practically universal buying by brand, the manufacturer may occasionally hope to attain leadership even without the sort of publicity that we usually mean when we speak of advertising. Golf balls are a case in point. Golf balls are made and consumed in tremendous quantities in America; there are certain well established leaders; and yet there is a relatively small amount of printed advertising. In this field the influence of the professional is so great that many manufacturers are content to obtain his cooperation instead of carrying their printed story to the consumers. Furthermore golf balls, golf clubs and all other kinds of golf equipment obtain a very large amount of word-of-mouth advertising from players. The news of a good ball travels fast. In industries where conditions similar to these exist, advertising is not always essential to large success.

Probably no other commodity is so largely sold by the manufacturer's name as the automobile. There is no such thing as an unbranded automobile. Yet not all automobiles are largely advertised. As is the case with golf balls, the good car is largely its own advertisement; its merits are the subject of every-

day conversation. One low-priced car in its particular class has obtained virtually a monopoly. When such a point is reached, advertising is necessary only in case the manufacturer wishes to use all possible means to insure his continued place in popular favor and to overcome the sort of active antagonism and prejudice that any large success always causes. Despite the unusual amount of free publicity that exists in the automobile field, it is noteworthy that with a very few exceptions the outstanding leaders are largely advertised and that the unadvertised car, unless it possesses exclusive and desirable features to an extreme degree, is likely to have but a limited and local sale.

8. *Why the manufacturer advertises.*—Despite the real opportunity for considerable sales without printed advertising in fields, such as the golf ball and automobile industries, where novelty, monopoly, and universal public interest in the commodity itself are active forces in building brand consciousness and favorable public opinion, many manufacturers in these fields have advertised and many more will advertise in the future. Their purpose is to add advertising to the other forces working in their favor, in order to hasten the formation of favorable opinion, to add to their competitive advantage, to control the market—that is, to be sure of sales—thru consumer interest, regardless of antagonism or indifference of dealers, and, by increased sales without proportion-

ately increased selling costs, to get the advantage of the lowered costs in large-scale production and to reduce the unit selling cost.

The same reasons often dictate a policy of advertising in fields where brand consciousness is only partly established—pianos and shoes, for example. There are largely successful non-advertising manufacturers in these and many other fields doing business alongside advertising manufacturers of competing products. With the marked increase in consumer interest in advertised lines, however, the non-advertiser is likely to find himself in an increasingly difficult position. He can always build a business of a sort on a price basis alone. Even with high prices, by giving value and service, he can slowly build a real consumer following without advertising. And, when the value of the unit sale is relatively large and when the influence of the dealer on the consumer's purchase is proportionately great, unadvertised lines may even dominate the market. It is business history that in almost countless fields where the non-advertiser has formerly controlled the situation, one or more manufacturers with vision and courage, by bringing to their aid the great power of advertising, have rapidly achieved places of leadership in which they have been able to set the pace for all competitors.

9. *Is there a limit to advertising possibilities?*—Three considerations are sometimes theoretically urged as opposed to successful advertising by the manufacturer. One is the nature of certain products.

When the consumer buys only on the basis of careful laboratory and other tests of various competing products, it is sometimes thought that advertising can be of little help. Belting for power transmission is usually bought in this way—and yet many brands of belts are profitably advertised. When the influence of the dealer on consumers' purchases is particularly strong, it has been said that manufacturers' advertising is relatively ineffective. The shoe repairman can often use any good quality rubber heel that he chooses yet many large-selling brands of rubber heels owe their satisfactory position in the trade in a large measure to advertising. Finally, when the market is thin—when the number of consumers is comparatively small—many manufacturers hesitate to use consumer advertising. The number of people in every hundred or thousand who might buy a bookkeeping machine is small yet bookkeeping machines are largely and profitably advertised in mediums of general circulation. The power of manufacturers' advertising is so great and its possibilities as yet so little developed that no one can safely say that any product or industry is barred from its helpful influence. Every manufacturer in every field must give it consideration as a possible aid in his selling if he seeks a dominant position for himself and his products.

10. *What advertised goods do for the dealer.*—The manufacturer who backs his goods with advertising believes he is entitled to the cooperation of jobbers

and retailers. He maintains that the dealer who handles his goods is directly benefiting himself and that the growth of national advertising means more satisfaction for consumers, more profit for dealers and more stable and satisfactory business conditions for all.

11. *Advertising and quality.*—It is maintained that advertised goods are of known and stable quality. The consumer has confidence in them; he knows what he is getting. Past experience with the goods has familiarized him with them, and he can buy quickly, conveniently and confidently by name. The quality must be satisfactory, because the manufacturer who puts his name on the goods and spends money to advertise them can not afford to run the risk of consumer dissatisfaction. The consumer who has tried the goods and found them right purchases them again and again with confidence and renewed satisfaction. The handling of goods of this character is particularly advantageous in a store's appeal for new trade. A transient or newcomer in a community who has worn a certain brand of clothing, for example, does not hesitate to deal with a strange store that handles the same brand. A store that deals in well-known goods, thereby establishes itself in the public mind as a reliable, reputable establishment. A trade paper has said:

> The retailer who ignores the powerful influence of advertising is completely out of tune. That advertising has brought about a stable condition in buying and selling is evident at every turn. Whether it be an incubator, a thresher, a breakfast food, a collar, or a cigar—people want to buy and duplicate by name. They don't want nameless unknowns.

12. *What the opposition says.*—In opposition, it is contended that advertised goods have no monopoly of quality or of public favor. There is an occasional non-advertiser whose goods are generally known to the public but they are few indeed as compared with advertising manufacturers. It is also said that the handling of advertised goods is not the chief thing in establishing the good reputation of a store. This is true. When the people of a community have had an opportunity to observe the conduct of a store for a considerable time, it will have an established trade regardless of the names on the goods that it carries.

13. *Effect on sales volume.*—A trade paper has quoted a store owner as follows:

> Three years ago I sold $700,000 annually. Today I am selling $1,000,000. Part of this, not all of it, is due to the fact that I sell and advertise Blank's clothing. My name on my store in my town is worth a lot more than theirs; I could sell it for $250,000. But their name on their clothes is worth a lot more than mine. My customers know I do not make clothes, and the name of Blank on the clothes answers every question any man might be inclined to ask. The combinaton of my name on my store and their name on my clothes in my town can not be beaten.

The controversy between manufacturers' brands and private brands has been covered in the preceding

chapter. It only remains to emphasize the fact that nationally advertised lines are rapidly making their place in a constantly growing number of fields, and that no dealer, regardless of his size or prestige, can afford entirely to ignore them as possible aids in the development of his own business.

More sales, it is said, can be made of advertised than of non-advertised goods. People are attracted to a store to buy advertised goods not only by the dealer's advertising, but also by the manufacturer's advertising. Imagine two stores in a town in the same line of business, both of them operated with equal intelligence and ability and both equally prominent and known with equal favor to the public. If one handles nationally advertised goods and the other does not, it is fair to assume the former would do the larger business, simply because it would have two forces working for it, while the other would be relying alone on its own efforts.

14. *Lowered selling cost.*—Nationally advertised articles can be sold more quickly and easily than non-advertised goods. The customer who asks for a definite kind of shaving soap, or tooth brush, or cigarettes, knows exactly what he wants; the salesperson has only to wrap it up and hand it over the counter; he need spend no time convincing the customer of the merits of the article. A test in a popular drug store in New York proved that during the rush hour one clerk made as high as eighty-nine sales in sixty minutes. This was possible only because the customers

knew what they wanted and asked for it by name. The time spent in making sales is a big item of store expense, and progressive stores are trying to find ways of helping salespeople to eliminate waste motions, waste steps and waste minutes. It is certain that the selling of well-known standard goods can be accomplished in less time and with less expense than the selling of unknown brands.

15. *Quicker sales and more turnover.*—If nationally advertised goods can be sold more quickly and with less expense than others and if there is more consumer interest in them, their sale should result in more turnovers of capital and larger profits. This should be true even if the gross profit on each sale of the advertised brand is less than on each sale of the non-advertised brand. Imagine two similar articles, one advertised and the other not advertised. Each is sold to the consumer for ten cents. On the former the dealer gets a gross profit of two and one-half cents; on the latter, of five cents. Assume there is real demand for the advertised line and that the dealer can sell one hundred units of it during the same time it takes him to sell twenty-five of the other. His gross profit on the advertised brand would be $2.50; on the non-advertised brand, $1.25. This is not an impossible or unique situation. It should be remembered, too, that additional profit in advertised goods lies in the time saved in waiting on customers. A final source of extra profit lies in the fact that nationally advertised goods are usually more staple

than others; at the end of a season they can often be cleared out of stock with a smaller price reduction than is needed to move less staple articles.

16. *The question of profits.*—When jobbers and retailers oppose the handling of nationally advertised goods, it is usually on the score of higher cost and less profit. They either deny or do not understand the sources of added profit outlined in the preceding paragraph. It has not been proved, speaking generally, that the gross profit on advertised lines is less than on competing unadvertised lines. In a competitive field, manufacturers normally must pay their wholesale and retail distributors about the same amount, regardless of whether the goods are or are not advertised. Some non-advertising manufacturers allow greater dealer discounts than their advertising competitors. Often this is because the non-advertiser realizes the weakness of his position and offers an extra discount to the dealer with the knowledge that in no other way can he arouse his interest in the goods. In such cases the dealer is paid an extra amount to do for the manufacturer's goods what the advertising manufacturer does for his own goods.

Occasionally discounts on advertised lines are below the average for other products of the same type. In fixing the discount the manufacturer must have due regard for the actual consumer demand for his goods and for the frequency with which the dealer can turn his investment in them. In practically

every case the dealer's profit on each sale is sufficient to net him a satisfactory return on his investment when ease of selling and frequency of turnover are considered. If an advertising manufacturer gives a discount which is actually too low to be profitable to dealers, he can not expect cooperation and he is likely to find that the justifiable antagonism of dealers will counteract the good results from his advertising. Few manufacturers are today so short-sighted as to place themselves in this position.

17. *Present attitude toward national advertising.*—Nowadays there is little dealer antagonism to nationally advertised goods. Chain stores, mail-order houses and very large department stores are sometimes committed to their own private brands and refuse to handle goods advertised by manufacturers. This is less frequently the case than formerly. Most smaller retailers, many of the larger ones and nearly all wholesalers are coming to realize that goods backed strongly by the manufacturer's advertising are real business and profit builders and that the merchant runs not the slightest danger of losing his identity or of becoming a mere machine if he accepts the assistance of the manufacturer in his endeavor to build up a reputation as a high-grade dealer handling standard merchandise of known value.

18. *Consumer demand.*—Probably much of the past misunderstanding, where it has existed, between advertising manufacturers and their distributors is due to the use of the phrase "consumer demand."

For a long time advertising was thought of as a force which worked *on* the dealer. It is true that advertising sometimes does work in this way. The drug clerk who made eighty-nine individual sales in sixty minutes could not have done so unless there was a very real consumer demand for the articles that he handed out in his hurried hour. Advertising was a force which actually worked *on* him—very much to his own profit and that of his employer. But this is not the way most advertising works. Usually it works *for* the dealer rather than *on* him; it creates an attitude of consumer acceptance instead of consumer demand.

19. *Consumer acceptance.*—In the case of relatively low-priced articles, there is not enough profit in each sale to justify the dealer in spending time to influence the customer in his buying; the dealer is glad to have the manufacturer do all the actual selling for him. In the sale of higher priced goods, the customer buys less mechanically and he needs and welcomes the dealer's help and suggestions. The dealer must use real salesmanship in selling clothing, typewriters, fountain pens, shoes, watches, kitchen cabinets and many other advertised products. In cases of this sort the function of advertising is to help the dealer to break down the buyer's resistance —to create a favorable public opinion for the product so that some part of the dealer's work of selling will be done for him by the manufacturer—to create an attitude of mind on the part of the consumer so

that, when the dealer points out the well-known name and label to him, he will have added confidence in the dealer's statements, his mind will jump a long way toward a decision to buy and the time required to make the sale will be materially shortened. This attitude of mind is called consumer acceptance. The manufacturer's advertising that brought it about was something that worked *for* the dealer rather than *on* him.

National advertising does different things for different manufacturers. The creating of real consumer demand is a legitimate function of advertising, and where it is possible to create such demand the dealer profits just as much as the manufacturer. But the creating of consumer acceptance is a much more frequent and more attainable goal for the advertising manufacturer. If it were generally understood that in very many cases the manufacturer uses advertising not as a force to work on the dealer but as a sales aid to work for the dealer, there would be less misunderstanding between manufacturers and distributors, and dealers would more generally realize the value of tying up their own sales efforts to the favorable public opinion created by the advertising of the manufacturer.

REVIEW

What decision must a manufacturer make regarding advertising? Upon what considerations must this decision be based?

Discuss brand consciousness.

What is the value to the manufacturer of advertising (a) an

article already in public favor, (b) an article in which brand consciousness is only slightly established?

What benefit does the manufacturer believe the retailer secures from the manufacturer's advertising?

What arguments are advanced for and against advertised goods?

What effect has nationally advertised goods upon sales?

On what grounds do dealers and retailers oppose nationally advertised goods?

What is the attitude of dealers at present toward nationally advertised goods?

CHAPTER XVII

PRICE POLICIES

1. *Importance of right prices.*—One of the major problems of marketing and merchandising is the determination of suitable selling prices. Prices that are too low will wreck the business. Prices that are too high handicap sales. Prices that are just right will produce maximum profits consistent with maximum sales. All prices must conform ultimately to the economic law of supply and demand but the law of supply and demand does not work quickly. It can seldom be invoked to help a manufacturer fix his prices for a new product going to a new market. Because the economic law makes itself felt only after operations have been extended over a considerable period, the manufacturer must have something more tangible to aid him in deciding his price problems.

2. *Influence of cost of production.*—A manufacturer's selling price must include three elements. First it must cover the cost of production. The unit cost to manufacture is usually at a minimum when the factory can realize the advantages of large-scale production and when the plant is running at full capacity. A low selling price may actually prove more profitable than a higher one that restricts sales

and limits the opportunities for maximum manufacturing efficiency.

3. *Effect of selling costs.*—The selling price must also include the expense of selling. Many people unfamiliar with business are inclined to believe that any price over and above the actual manufacturing costs is clear profit. In our social and industrial system, selling cost is just as legitimate a charge against selling price as is production cost. Goods are worthless unless they are available to the consumer when he wants them. The creating of place and time utility is frequently as expensive as the creating of form utility. In countless cases of relatively low-priced products the cost to sell is as great as the cost to make, and in some cases it is even greater.

4. *Size of the profit.*—The final factor in selling price is net profit. After all direct and indirect manufacturing and selling costs, including overhead, have been cared for, there must be in addition a net profit sufficient to recompense the manufacturer for the risk he has taken in engaging in the business and to return an adequate interest on the invested capital. Normal interest on capital is not sufficient. If an amount above this could not be realized, it would be more profitable for the manufacturer to invest his funds in safe securities rather than to run the constant risk of loss involved in most manufacturing operations. Manufacturing and selling costs are known values or, in the case of a new business, they can be

approximately estimated. There is no problem in fixing a selling price large enough to include them. The variable element is net profit. Whether to make this large or small is the chief part of the price problem.

5. *"All the traffic will bear."*—A patent is an official, legally encouraged monopoly. The selling price of a patented article is theoretically a monopoly price. Because there can be nothing else just like it on the market, a patented article may literally be priced at a figure that represents "all the traffic will bear." Occasionally such a situation actually exists. The first sewing machine, the first automobile, the first vacuum cleaner were real monopolies. In fixing selling prices for goods in the monopoly field, the manufacturer's net profit is an exceedingly elastic price element. Its size will depend chiefly on what the purchasers can be induced to pay. The first thing to consider is the service rendered. The first player-piano sold at a high price, with a large net profit, because the purchaser was willing to pay a high price for a service of great value. A patented kitchen utensil, on the other hand, will not be sold in large quantities if the manufacturer makes the mistake of trying to get a price out of proportion to the value placed by the purchaser upon the product. A second consideration is the purchasing power of the market. A patented breakfast food, going into the homes of the masses, must be priced low enough to produce large sales, while a patented lighting device that will

go only into the homes of the well-to-do may carry a price that permits a large net profit on each unit sale.

6. *Influence of competition.*—Altho the granting of a patent is the legal granting of a monopoly, actually few patented articles can be sold at high monopoly prices. In common with unpatented goods, products that are patented are usually in competition with many other things which, while not exactly similar, are sufficiently alike in purpose and in service to make the influence of competition the chief factor in price fixing. Occasionally a manufacturer in a competitive field consciously fixes his prices on a "cost plus" basis—manufacturing cost added to selling cost plus a predetermined and definitely fixed net profit. This procedure is unusual. Commonly a manufacturer has his price fixed for him before he starts to manufacture. If consumers are accustomed to paying a certain price or a certain range of prices for the sort of thing he contemplates making, he can not expect to get for his own product a price greatly out of line with the general market. If competition has fixed his price for him, his problem is to get his manufacturing and selling costs low enough to leave a margin of net profit adequate to compensate for his risk and for the capital invested in the business. Price, then, is usually dependent on competition—which is another way of saying that no individual product is exempt from the operation of the economic law of supply and demand.

7. *Advantage of definite prices.*—It is scarcely

necessary to discuss the relative advantages of definite and indefinite selling prices. Nearly every manufacturer has prices that are at least fairly well fixed but this was not always so. Sliding scales of prices were formerly the rule rather than the exception in many industries. Buying was largely a matter of price bargaining, and salesmen were expected to get as much as they could above a certain fixed minimum. Some industries still operate on this basis, just as some retail stores still mark selling prices in cabalistic figures designed merely to keep the salesmen from getting too little for the goods. Both practices are losing ground. Specific prices, varying often for different quantities, terms and classes of customers but definite for each type of selling transaction, are now the rule, particularly when sales are made by the manufacturer to middleman rather than direct to the consumer. Manufacturers who set definite prices for their goods believe that by doing so their salesmen can find and hold trade on the basis of quality and service, which are generally surer bases of profitable and continued patronage than sales based chiefly on price and on the bargaining ability of salesman and customer.

8. *Jobbers', retailers', and consumers' prices.*—Fixed prices do not necessarily mean the same prices for all buyers. No other price policy is more firmly fixed than that which dictates different prices to jobbers, to retailers and to consumers. The jobber who renders the types of distributing service discussed in

the chapter on "The Jobber and His Status" is generally believed to be entitled to the minimum prices that the manufacturer can profitably make. The traditional practice is to allow him the maximum discounts simply because he is a recognized wholesale distributor, regardless of the quantities he may buy, altho there may be different price scales, based on quantities, for different wholesalers. If the same manufacturer sells both to jobbers and to retailers, he normally protects his wholesale customers by selling to retailers at a figure approximately the same as that which his wholesale customers must charge. If he also sells to consumers, his price to them usually is such as to protect both jobbers and retailers who buy from him. This practice needs no defense. It is justified by business ethics, expediency and established custom. The consumer, for whom the manufacturer must perform the full range of selling services, legitimately pays the highest prices; the retailer, whose distributing activities relieve the manufacturer of much of the expense of reaching the consumer direct, pays a lower price; and the jobber, who still further takes the distributing burden from the manufacturer's shoulders, pays the lowest price of all. Not all manufacturers operate in this way but different prices for different classes of customers is one of the most common policies in the field of marketing.

9. *Quantity prices.*—Another basis of price differentiation is the quantity purchased. When minimum

prices are allowed for maximum purchases, the practice is justified by several considerations. It costs the seller less per dollar of sales to make a large sale, to pack the order and to handle the account. When a buyer takes a large quantity at a time, he stores his surplus stock for himself, instead of requiring the seller to store it for him. Of all existing price policies the one that permits different prices for different qualities is based perhaps on the soundest economic doctrine. There are, however, arguments in opposition. In many lines the goods should not be sold in large quantities because of the danger of spoiling; the manufacturer of such goods sometimes discourages excessive purchases with the consequent risk of deterioration, by withholding quantity prices. When a product is sold chiefly thru small retailers, the occasional manufacturer refuses quantity prices on the ground that his success depends on the success of his retail distributors and that it is to his interest to encourage the application of the principle of small stocks and quick turnovers. It is sometimes urged that quantity prices are an incentive to price cutting by the large purchaser and that they tend toward trade monopoly by giving an unfair competitive advantage to the largest merchandising units.

There is a growing acceptance of quantity purchased as the chief justification for price differentiation. In some cases the traditional jobbing discount is giving way to a straight quantity discount, available to any one who can buy in the required quantities, re-

gardless of whether he is jobber, retailer or consumer. There is no question that this is inimical to the interests of the "service wholesaler"—the jobber who really performs the traditional jobbing services. It is typical of the changing conditions in the jobbing field and the many problems that the jobber is facing that the manufacturer, who still seeks the jobber's cooperation, in some cases finds it expedient to abandon the accepted jobbing discount and to substitute for it a discount based solely on quantities.

10. *Gross and net prices.*—The manufacturer who sells to different classes of customers at different prices must decide whether to publish net prices for each class or to publish only a gross price-list subject to a varying scale of discounts. The latter has some advantages. It permits price changes without the republication of the standard list. It permits special prices to special customers without open variation from published figures. It obviates the risk of a net price-list for one class of customers falling into the hands of a customer in another class. When the manufacturer is prohibited by law from dictating the prices at which distributors must resell his goods, he can effectively suggest a suitable resale price by listing the goods at the suggested resale price and then allowing the distributor a discount from this figure. Despite all these advantages of the gross list subject to varying discounts, the practice of publishing net lists is growing in favor. The time consumed by the business world in figuring percentage discounts is enormous. Perhaps the fact that discounts are an accounting nuisance is alone a sufficient indictment of the system. Another reason for the changing procedure is the gradual abandonment of secret prices and special concessions and the development of known net prices and the general acceptance of quality and service, rather than price, as the basis of permanent and profitable business relations.

11. *Price maintenance.*—Until very recent years every manufacturer who reached the consumer thru middlemen had to decide whether he would or would not adopt the policy of price maintenance. Price maintenance meant the control by the manufacturer of the price at which middlemen sold his goods. He might attempt to control the resale price of jobbers or of retailers. He might definitely fix resale prices or he might establish maximum or minimum limits for his distributors' prices. For many years price maintenance was practiced by occasional manufacturers, without noticeable disadvantage to consumers, to the satisfaction of at least the majority of the distributors of the price-fixing manufacturers and to the advantage of the manufacturers themselves. About 1908 the courts began to take cognizance of the practice and during the years following there was a long series of decisions, some of them contradictory but the majority indicating a general trend of judicial opposition to the right of the manufacturer to dictate the resale prices of his distributors. Most manufacturers abandoned the attempt to control distributors' prices,

rather than run the risk of governmental opposition.

12. *Legal status of price maintenance.*—The friends of price maintenance, while necessarily accepting judicial interpretation of existing laws, have believed that those laws were not intended by their framers to prohibit price maintenance and they have sought specific legislation which would recognize the legitimacy of the principle of price maintenance and which would at the same time surround its application with sufficient governmental oversight to render impossible the abuses which might result from its unrestrained use by manufacturers. The subject is still in controversy and it will remain so until Congress definitely takes from or gives to the manufacturer the right to control his distributors' resale prices. Price maintenance is discussed in this Text because it involves fundamental principles of marketing, because all business men should be informed of the arguments for and against the practice and because legislation may in the future open the way for the manufacturer who wishes to adopt price maintenance as part of his selling policy.

13. *Why manufacturers want to control resale prices.*—The manufacturer who believes in price maintenance believes it is to the interest of himself, his distributors and his ultimate consumers to have his goods sold generally by all dealers in a community at the same price. He believes that price-cutting on his goods by distributors works a hardship to which he should not be subjected. The sort of price-cutting

to which he most objects is that indulged in by dealers who take advantage of the consumer demand for his well-known, advertised goods and offer them at cut prices in order to attract trade to their stores. If the standard price for an article in general demand is one dollar, the dealer who offers it at ninety cents creates the impression of a generally low level of prices in his store and draws trade from dealers who do not cut the standard price. If the cut is a mere bait for trade and is so great as to eliminate largely or entirely the profit on that particular line, the public is likely to believe that other dealers who insist on their legitimate profit are charging too high a price. These dealers, unwilling to subject themselves to a charge of profiteering, lose their interest in the line and may refuse to carry it at all or, at least, may cease their active efforts in support of the manufacturer.

Price-cutting by one dealer may lead to retaliatory cutting by others. A price war may result, which leaves no profit in the line to any dealer. When this point is reached, they may throw it out of their stocks entirely or they may push competing goods, selling the unprofitable line only when consumers insist upon having it.

14. *Who could use price maintenance?*—Many manufacturers have experienced the disastrous results of price-cutting by distributors. Others, in the past, have successfully avoided these results by adopting a policy of price maintenance. It should always be

borne in mind that only relatively few manufacturers have any vital interest in controlling distributors' resale prices. Retailers do not use cut prices as baits for trade except on well-known, advertised articles that are in general demand by consumers. Normally only manufacturers of articles of this kind are interested in price maintenance. Price maintenance is not new. For a great many years it was available as a marketing policy to any manufacturer who wished to adopt it. In all those years it was adopted only by relatively few manufacturers and its operation resulted in none of the abuses, the possibility of which has been set up by its opponents in denying the right of any manufacturer to control distributors' prices. It never was and it never could be a policy universal to all manufacturers. If the way is opened in the future to its adoption, it will probably be adopted only by that comparatively small group of manufacturers whose service, quality and advertising have made household words of their trade-names and have created wide and active consumer demand for their products.

15. *The consumer's interest.*—In favor of price maintenance are those manufacturers who believe it is a legitimate and valuable aid in protecting consumer good-will for their products, many distributors who see in price-cutting a dangerous weapon of unfair competition, and many economists who, after considering both sides of the question, believe properly supervised and controlled price maintenance provides

the greatest good for the greatest number of people. In opposition there are many strong arguments. The strongest is found in the fact that, without price maintenance, some people can buy goods, temporarily at least, for less money than they would have to pay if all dealers were held to the standard price. Even admitting that cut prices may eventually make it impossible for the consumer to get the goods at any price and admitting that the store offering standard goods at cut prices often makes up its lack of profit or low profit on those goods by charging higher prices for the other things it sells, the argument of even a slight or temporary advantage to the consumer is a difficult one to combat. The manufacturer who wishes to control his resale prices contends that price maintenance is essential to the continued prosperity of his many employes and to some extent to the continued prosperity of multitudes of small retailers and that their interests are of greater moment than the interests of the relatively few consumers who are the recipients of the temporary benefits of the sort of price-cutting that price maintenance is intended to prevent.

16. *Are maintained prices high prices?*—It is sometimes contended that the purpose of the manufacturer in controlling prices is to fix a high price. This has not been proved. Price maintenance is a policy affecting only the manufacturer, his distributors and his consumers. He is in competition with other manufacturers who may or may not seek to control

their own resale prices. His prices must permit his goods to be sold in competition with others of the same type. Manufacturers who wish to control resale prices normally want only to maintain a fair price that will insure profits to dealers, keep their continual good-will and build up consumer confidence in the goods and in their manufacturer.

17. *Question of fairness to dealers.*—Another argument against price maintenance is that it is unfair to the dealer who, by reason of superior merchandising ability or by reason of large purchasing power, can profitably sell goods at lower prices than his competitors. If a manufacturer believed he would be benefited by price maintenance and if he were permitted to apply the principle, he might avoid any unfairness of this sort by refraining from selling to dealers whose established practice was to sell all standard goods below the market rate. Formerly this was often done, exceptions being made when the merchant agreed to sell his particular goods at the ordinary market level. The number of retail organizations that sell all standard goods at cut rates has greatly increased in recent years. Many manufacturers believe no serious harm is done their trade if these organizations sell their articles at cut rates while other dealers in the same communities have to sell at higher figures. The public are coming to understand the essential difference between "cash-and-carry" stores, for instance, and so-called service retailers; if they want credit and delivery, they realize

they must pay for it and they infrequently resent the necessarily higher prices of the service establishments. It is not the customary cut rates of some chain stores that price maintenance is intended to prevent. Its chief object is to keep a retailer from demoralizing a manufacturer's market by using the manufacturer's goods, the manufacturer's name and the manufacturer's reputation as a mere bait to draw customers into a store.

18. *Price maintenance and restraint of trade.*—The judicial objection to price maintenance arises from a belief that the practice of controlling resale prices is in opposition to the laws which forbid restraint of trade. Restraint of trade is a phrase used to include everything which tends to prevent full and free competition among manufacturers and among dealers. Two of the things that are considered most subversive of full and free competition are conspiracy prices and the development of monopolies. A conspiracy price is a price fixed for a class of commodities by manufacturers or dealers conspiring together so that consumers will no longer get the benefit of price competition. The opponents of price maintenance contend that resale prices fixed by a manufacturer are no different from conspiracy prices. The argument runs as follows: If a manufacturer says that his shoes shall be sold for no less than five dollars by all retailers who handle them, the result is the same as it would be if the retailers themselves conspired together to get no less than five dollars for the shoes.

The conspiracy price would be against public policy. Why is not the controlled resale price equally against public policy?

19. *Difference between price maintenance and conspiracy prices.*—The immediate effect of these two practices on the consumer is the same. But the similarity stops there. The two practices are wholly different in principle and in final results. Conspiracy among dealers must be prohibited, because if it is permitted in the case of the shoes made by one manufacturer it must be permitted with respect to all other articles. And if dealers are permitted to conspire to fix prices, competing manufacturers must be allowed the same privilege. This would result in the legalized opportunity for the restriction of all price competition and for the development of complete monopoly thru voluntary combination in all fields. The law rightly prohibits conspiracy prices, because of the possible results of such prices. No such results can come from price maintenance. It has nothing in it that encourages monopoly. The price fixing is not done by the cooperation of competing units; it is done by a single manufacturer, who, operating in a competitive field, must fix a price that will sell his goods in competition with many other similar articles.

The Honorable Louis D. Brandeis, in December, 1913, before his appointment to the Supreme Court of the United States, said it was regrettable that there was

confusion of price maintenance by independent manufacturers with price fixing of monopolies. People know that "some of the early trusts and monopolies" fixed prices. It was natural to conclude that anything that fixed prices was therefore objectionable and against the public interests. An atmosphere was thus created which permeated the courts and which led them to stamp as illegal anything in which the attempt was made to protect the price. The distinction, is, of course, perfectly clear. On the one hand you have a combination of individuals forming a capitalistic monopoly and using their power to fix the price of a standard article. On the other hand you have an individual concern in a competitive line of business undertaking to preserve his own creation—that which he has contributed to the world—and has marketed in a manner which he believes is essential to secure fair and adequate distribution. . . . He who sets the price, fixes it knowing that if it is too high either one of two things may happen: either people will not buy largely, or if they do buy, and if his profits are large, new competitors will come in and share his market.

Price maintenance does restrain price competition among distributors so far as the goods of the price-fixing manufacturer are concerned. It is wrong to assume, however, that unrestricted price competition is always of benefit to the public. Some of the earlier so-called trusts were built up largely by driving small competitors from business thru a policy of selling below cost in one town and making up this loss by higher prices in other communities. The absolute independence of each dealer is a fiction. Unrestricted price competition has proved a failure in encouraging competition.

20. *Does price maintenance encourage monopoly?*—It should be remembered always that price maintenance does not prohibit all price competition; it prohibits only a very small part of it, because only a comparatively few manufacturers ever have had in the past, or will have in the future, any interest in controlling their resale prices. As long as the law keeps those manufacturers from conspiring to maintain a uniform price on competing goods, there can be no danger to the consumer.

If all manufacturers of flour in the United States were to form a combination for the purpose of fixing a uniform price on flour, that would be a real monopoly, dangerous in principle and practice. People would have to pay the uniform price or go without flour. The difference between this situation and the situation under price maintenance is fundamental. Under price maintenance, there is no combination among manufacturers. They are still kept apart by law. One flour manufacturer fixes the resale price on his products alone. Other manufacturers may similarly fix their resale prices if they wish to but there is nothing arbitrary or monopolistic about the prices. They must be governed absolutely by the laws of competition. The consumer need not pay one manufacturer's price or go without flour. He has a choice among the products of many manufacturers, all seeking his trade and all in real competition with one another.

21. *Price maintenance illustrated.*—The real nature of price maintenance is best seen from a simple illustration. John Doe manufactures flour in a small way. He sells it all by putting it into a truck and peddling it from house to house. Of course he may charge any price that will sell the flour; no one questions his right to do so. Later he expands his business. He makes more flour than he can sell himself and hires men to help him. Mr. Doe does not want one of his salesmen selling the flour at $1.40 and another selling it at $1.60. If this were done, a consumer who paid the higher price might hear of the lower; she would resent what she might think was an attempt to cheat her and she would probably be lost as a future customer. Therefore Mr. Doe calls his salesmen together and says to them: "The price of this flour is $1.50 a sack. I want you to get that—no more and no less." No one can question Mr. Doe's right to fix this price and to insist on his salesmen getting it.

The business keeps on expanding. Selling flour from house to house by means of salesmen becomes cumbersome and expensive. John Doe finds an increasing demand for his product. Consumers, who have bought it once, like it and ask their grocers for it. The grocers ask Doe to sell them his flour. He says: "All right. I will give you a fair dealer's discount but I don't want my trade demoralized by the charging of different prices in different stores. I

will sell it to you if you will agree to sell at the uniform price of $1.50." The dealers agree and the flour is sold on this basis.

That is all there is to price maintenance. The friends of price maintenance say that selling flour, or anything else, in this way has in it none of the elements of conspiracy or monopoly price. They contend that if a manufacturer has the right to name the price at which consumers shall get his product when he sells direct, he shall have the same right when he sells thru an intermediary. They contend that the manufacturer should have this right if he chooses to exercise it, because the thing the dealers sell when they sell his goods is not exclusively their own property—it is the name, the reputation and the prestige of the manufacturer—and the manufacturer should have the right to control the conditions under which his name, reputation and prestige are used as bids for trade, regardless of whether he sells direct or thru middlemen.

22. *How price maintenance encourages competition.*—A final argument against price maintenance is based on the belief that it discourages competition among retailers—that it tends to build up merchandising monopolies—that, in general, it is a tool of the big and powerful against the small and weak factors in manufacturing and selling. The facts seem to point in just the opposite direction. The friends of price maintenance say that it is only the large, well-capitalized retail store that can continually use the

price-cutting weapon. They point out that cut prices on standard goods, offered for advertising purposes, are used chiefly by chain stores, department stores and mail-order houses—the three types of organizations that approach most nearly to the idea of monopoly in merchandising. If they are permitted to use the price-cutting weapon—if they are permitted to continue to attract trade by offering prices on standard goods that are close to or below the profit line—then they will continue to increase in size and their small competitors who do not or who can not meet their prices will decrease in number and importance. On the other hand, if prices on standard goods are maintained, the advocates of price maintenance hold that the man with small capital is in exactly as strong a competitive position as the man with large capital, as far as the products of the price-fixing manufacturer are concerned. Competition then becomes a matter of service, in which the small dealer is on just as secure a footing as the large dealer.

23. *Nature of the price maintenance agreement.*—Nobody contends that manufacturers should be forced to maintain resale prices. Many manufacturers have preferred in the past, and will prefer in the future, to do business without price restrictions of any kind. Others, who have created large consumer demand, believe that they are hurt by price-cutting by distributors. Nobody contends that dealers should be forced to handle price-maintained goods. Some do not want to do so; certainly they must continue to

do business as they please. But there are many others who believe they are helped by keeping standard prices on standard goods. The friends of price maintenance contend simply that when a manufacturer wants his prices maintained and when he can find dealers who agree with him, the individual manufacturer and such dealers as he can find who are willing to do business with him on this basis should be permitted, with suitable restrictions and governmental regulation, to enter into a formal agreement without danger of being prosecuted for it and with the assurance that the market will not be demoralized by the breaking of the agreement after it is made.

REVIEW

What elements must be included in a manufacturer's selling price?

Why is it seldom possible to sell a patented article at a monopoly price?

What advantages are found in definite prices set by the manufacturer?

How are these applied to the jobber, retailer and consumer?

Discuss quantity prices.

Compare the relative merits of gross and net price-lists.

What stand do some manufacturers take in trying to control resale prices?

Discuss price maintenance from the standpoint of (a) high prices, (b) effect on the dealer.

Make a distinction between price maintenance and conspiracy prices.

What effect has price maintenance on competition?

CHAPTER XVIII

DISTRIBUTION AND DEALER COOPERATION

1. *Getting distribution.*—The manufacturer who sells direct to consumers has a marketing problem that is relatively simple compared to that of the manufacturer who sells to dealers. The dealer, whether retailer or jobber, lives only by buying and selling and yet he is so constantly the target of a multitude of selling appeals that he often protects himself with the armor of assumed indifference to all appeals. Two factors always enter into a sale to a dealer—his own inclinations, likes and dislikes, and his interpretation of the likes and dislikes, of his customers. Then, too, the distributor bears much of the risk of unseasonable weather, changing consumer interests and changing styles. Careless buying may ruin him. When he has a choice of many competing manufacturers' lines, he must balance his desire to restrict his stock investment against his desire to give his trade what they want. Many considerations influence his purchases, and the manufacturer seeking his aid in distribution must give the utmost care to avenues of approach and to methods of appeal.

2. *Getting cooperation.*—"Getting distribution," the process of inducing dealers to stock a product, is

not the only marketing task of the manufacturer who sells thru dealers. He used to be content when his goods were on the dealer's shelves. If he stops there today, competition is likely to leave the goods where he placed them. A dealer handling a thousand items can not actually "sell" them all. The manufacturer must either find some means to interest the dealer in moving his particular goods or he must assume the whole burden of ultimate sale by using the amount of advertising necessary to move them into consumers' hands, regardless of the degree of the dealer's active cooperation.

3. *Advertising or salesmen.*—If a manufacturer sells to retailers by mail exclusively, his problem of getting distribution is a problem of direct-by-mail advertising and of correspondence. If he uses salesmen to sell to retailers, his distribution problem is partly one of personal salesmanship and of sales management and partly one of advertising, but it also includes certain considerations that are problems of marketing in general rather than of either sales management or of advertising alone. The first is the problem of preparing the way for the salesman.

4. *Preparing the way for salesmen.*—Some manufacturers send salesmen into an uncultivated field to call on dealers who have never heard of the manufacturer, his product, or his salesmen. It is possible to sell goods in this way but it is likely to be expensive and to produce business slowly. Some seed will take root and grow when scattered on the hard ground but

the harvest will be more abundant when the ground is plowed before the seed is sown. Plowing the ground for sales to dealers is largely a matter of advertising in trade papers and of direct-by-mail appeals. The former is economical only when the campaign is of national scope. The rifle-shot accuracy of aim in direct-by-mail advertising is making it increasingly popular as a forerunner of the salesman's visit.

The dealers to be called on by a given salesman in a given period may be selected in advance. The list may then be cultivated with any desirable degree of intensity. Personal letters, form letters, cards, folders, booklets, broadsides, catalogs—there is almost an inexhaustible variety of mediums to carry the message that makes the salesman's task less difficult. The purpose may be merely to introduce the salesman, to make it a little easier for him to get an audience with the buyer, or it may be to carry the sale right up to the point where all that is needed is a closing argument by the salesman. Salesmen are greatly helped by direct-by-mail advertising that to some degree helps to break down buying resistance, spreads some knowledge of their goods and makes it less difficult, even to a slight extent, for them to get the ear and the interest of the trade.

5. *Distribution in isolated communities.*—The ratio of selling expense to sales usually varies directly with the distances between sales. Obviously it costs less to sell to retail grocers in a large city than to sell to widely scattered country stores. A one-line manu-

facturer, selling only in small units to each dealer, constantly confronts the difficulty of covering all parts of his territory without undue expense. The automobile, greatly increasing the mobility of salesmen, has solved part of the problem but country roads are not open to automobiles during all months in many parts of the country, and even automobile traveling has its expense limitations. Two methods are in use to cover country trade on which it is not feasible for salesmen to call with the desired frequency. One is to combine mail-order selling in the country with the use of salesmen in the cities. Well-designed catalogs with frequent direct-by-mail advertising pieces have opened the door to profitable country trade for many manufacturers who could not economically send their salesmen to call on dealers in isolated communities. Another method of reaching isolated dealers is to send out "trunk salesmen." A sample trunk is routed to a selected list of possible customers, with no salesman to chaperon it. When all precautions are taken to put customers to the least possible trouble and to provide for the most effective display of the trunk's contents, this method of avoiding the expense of sending salesmen to small towns has been surprisingly productive of plus business for many manufacturers.

6. *Selling the entire line.*—When a manufacturer's line consists of a variety of different articles, selling the entire line to a dealer is often difficult. After a man has spent his allotted time in making a sale of

one item, it is not easy to begin all over again and hold the dealer's attention while the other items are presented. Straight salesmanship is often not enough to accomplish the task. Sometimes a special plan of cooperation with the dealer may be offered if he will stock the whole line; he may be given a display case, local advertising may be done over his name, or he may be supplied free with advertising material that he can send out to his trade or that he can distribute to those who visit his store. Another plan is to offer special prices if the whole line is purchased. A favorite method is to make up assortments of various items, offered only as assortments and carrying an attractive price. A last resort is to sell such items as the dealer will buy and then to put in other items on consignment. Consignment sales are deservedly unpopular. What the dealer does not pay for he is not likely to push. Nevertheless, if no other way is open, it is sometimes possible to get satisfactory results by delivering the goods and asking the dealer to pay for them only after he has sold them.

7. *Keeping the territory covered.*—A salesman can not be in all parts of his territory at one time. When he is not trying to sell a dealer, some competitor is probably doing his best to get the business. There is a growing tendency to solicit mail-orders actively between salesmen's visits. Every week or at other frequent intervals during the consuming season, some manufacturers see that all dealers receive reminders by mail with order blanks and attractive sales appeals.

Salesmen are encouraged to keep in constant touch by correspondence with their trade. The form letters going out from the home office may be signed with the names of the salesmen. It is important that full credit for mail-orders should be given to salesmen and that both salesmen and dealers understand that this will be done. Otherwise salesmen are prone to work against the mail campaign rather than with it.

8. *Distribution thru branches.*—The physical distribution of goods to retailers may be either from branch warehouses or direct from the factory. If the branch house system of distribution and of centering salesmen's activities is used, there are the advantages of quick and cheap transportation from branches to dealers, prompt service on fill-in orders and close contact with the trade on the part of the local branch manager and credit man. The disadvantages are the lack of direct contact between salesmen and the home office and factory, scattered surplus stocks thruout the country and the fact that dealers sometimes prefer to buy from direct factory representatives instead of from the salesmen of a local distributing branch. The force of these advantages and disadvantages varies with different kinds of goods and with different trade customs. Despite the recognized difficulties of operating thru branches, the use of branches is necessary when a manufacturer seeks country-wide distribution, direct to retailers, of a product that must be purchased by the trade frequently and in relatively small quantities.

9. *Missionary salesmen.*—In considering the jobber and his status we have found that he is normally unable to put special selling effort behind any one item in his line. When a product is new, getting distribution in retail stores thru jobbers is a long and discouraging task if the jobber is left to accomplish it unaided. This statement of fact involves no criticism of the jobber's intent or of his attitude toward the manufacturers who seek his support. With the best will in the world, the jobber's salesman has little time to induce a dealer to try a new product. Extensive advertising by the manufacturer will seldom alone be sufficient to build business rapidly thru jobbers' salesmen. In getting distribution thru jobbers many manufacturers use "missionary" salesmen—so-called because they are used to spread the gospel of the new line of goods. Missionary salesmen call on the retail trade either alone or in company with a jobber's man, introduce the line to the dealer and, if they take an order, take it for the account of any jobber whom the retailer may name. The manufacturer, in other words, in getting distribution often finds it necessary to do the actual selling, payment for which is supposed to be included in the discount he gives to the jobber. In many cases missionary men are retained long after adequate distribution has been obtained, as insurance that the manufacturer and his goods will be kept aggressively before the retail trade.

10. *Distribution and advertising.*—Which should come first, distribution or advertising? This is one

of the oldest questions in marketing. It remains unanswered, because no one answer will apply to all conditions. Advertising has two purposes—to induce consumers to ask for or to accept a product and to induce retailers to carry it. The dealer says, "Create a demand, and I will carry your product." The manufacturer knows that it is wasteful and dangerous to create consumer-interest when dealers do not have his goods in stock. When a manufacturer contemplates national advertising, a common practice is for him to get at least a skeleton distribution thruout the country before the advertising begins. It is always possible to find some dealers who will buy on the strength of the promised advertising, or without regard to any advertising plans of the manufacturer. With a skeleton distribution of this sort, advertising may be begun with the expectation of adding to the number of distributors as the advertising makes its influence felt. This method of getting distribution is well adapted to a market that is relatively "thin"—a market where the number of possible customers and the number of sales to each customer are relatively few.

11. *The intensive campaign.*—When a product is intended to appeal to a large number of people in each community and when many repeat sales can be expected, advertising and the process of getting distribution may advantageously proceed side by side. Most advertised articles are in this class—for example, food products, soap, drug-store specialties, small

articles of apparel, tobacco and confectionery. An ideal way to get distribution for products of this type is to plan for an intensive selling campaign in carefully selected communities, with local newspaper advertising working directly with the local selling crews. Under the inspiration of a large-scale local advertising campaign, a selling crew can often sweep thru a city and place a product in a surprisingly large number of stores in a short time. As one city yields a satisfactory number of dealers, the crews jump to other communities where local advertising again shows the possibilities of large results that can be obtained from intensive team-work between advertising and personal salesmanship. National advertising may be begun as soon as the distribution has become fairly extensive. If the cities originally covered are well scattered thruout the country and are centers of responsive tributary territories, the influence of the local campaigns will be soon felt even in country communities.

12. *Problem of cooperation.*—After distribution has been obtained, the manufacturer faces the problem of getting dealer cooperation. Jobbers and retailers, as well as consumers, respond to high quality merchandise, fair prices, business-like treatment, friendly consideration, guarantees, prompt attention to orders and all the other fundamentals of good merchandising. Something else is necessary, however, if the manufacturer's product is to stand out prominently in a store in such a way that it can not be

overlooked either by the dealer and his salespeople or by his customers. To induce active dealer cooperation the manufacturer may give assistance in personal salesmanship or he may offer advertising help.

13. *Help in selling.*—Selling help in a retail store may take the form of demonstrations of the manufacturer's goods, in charge of the manufacturer's representatives. This is an expensive but effective method of starting a line of goods in stores that are large enough to provide important outlets to the market. Some manufacturers' salesmen spend their Saturdays and other spare time behind retailers' counters showing the regular salespeople how to sell their goods. Salesmen can get good cooperation by dressing dealers' windows, or by going out into a dealer's territory and seeking out prospects, explaining the product, making installations, handling complaints and making sales for the account of the dealer.

14. *Education and cooperation.*—One of the important points in getting cooperation of dealers is to give to dealers and their salespeople full information which will enable them to tell intelligently and effectively the story of a manufacturer's product. Some manufacturers provide formal courses of instruction for their distributors; others send trained instructors to meet the sales forces of their principal dealers; still others bring dealers into their factories to show them manufacturing processes and to encourage a feeling of friendly intimacy between producer and distributor. Another plan is to send to dealers from time to

time interesting information about a product—informal instruction, which has wider possibilities than formal correspondence courses. House organs sent to dealers are intended to accomplish the same purpose. They give selling points and they try to make the dealer and his sales force feel that they are, in an important sense, a part of the manufacturer's own organization.

15. *Working with the salespeople.*—If a manufacturer's product represents a large part of the business of his dealers, he may bring the dealers into some organized group, with their own officers and regulations and with close contact between the organization and the factory. Another plan is to offer special compensation or prizes to dealers' salespeople. Contests may be conducted with substantial rewards for highest sales, the best statement of selling points, or the most attractive window display. If a jobber should permit direct contact between manufacturers and his salesmen, good results might be obtained by sending sales literature directly to the homes of salesmen and by keeping in close touch with them thru personal letters, sales bulletins and the other many methods of effective contact between a home office and a field force. It would however probably be a rare case in which a jobber would permit this. As a rule he would say to the manufacturer that he preferred to keep the direction of sales efforts in his own hands.

16. *Indirect service.*—Manufacturers can get

dealer good-will by forms of service that have only an indirect bearing on the sale of their products. One manufacturer offers a free course in advertising to his distributors; another provides without cost a system of store accounting. Courses in retail salesmanship are frequently given away. These expensive forms of service illustrate the lengths to which manufacturers find it advisable to go in order to increase the effectiveness of retail distribution in general and to create good-will and get cooperation in the sale of their particular products.

17. *How advertising helps.*—The most common method of getting dealer cooperation is by means of advertising. The influence of national advertising has already been considered. In the same class, as far as effect on the dealer is concerned, is local advertising in newspapers, in street-cars, on bill-boards and in moving-picture theaters, when the advertising is done in the name of a manufacturer rather than the dealer.

18. *Advertising for the dealer.*—Other forms of advertising that tie up directly with the dealer are largely used to get his cooperation. Local advertising may be done over the retailer's name, or the manufacturer's local advertising may list the names of his dealers in the community. When conditions make either one of these two plans possible, it is, perhaps, the most effective thing any manufacturer can do to get dealers strongly behind his goods.

19. *Advertising thru the dealer.*—Advertising for

dealers most commonly takes the form of display advertising of some type in connection with a dealer's store, or advertising material that the dealer can distribute to his customers. Display advertising of a manufacturer's product may be intended for windows, for counters, for inside walls, or for the outside of the store. It may consist of anything from an elaborate electrical sign to a simple card cut-out or calendar. It may be a display rack or a special counter, a poster, hanger, a useful store fixture, or even uniforms for the sales force. Advertising material for the dealer to use himself may be electrotypes for his newspaper advertisements, lantern slides for picture theaters, prepared form letters, booklets and other mailing pieces for the dealer to mail to his trade, or samples, blotters, or novelties for him to distribute free.

20. *Allocation of expense.*—Advertising material for the dealer's use may be furnished to him without cost, or he may be asked to pay for part or all of it. There is no standardization of practice. The degree to which dealers can be induced to pay part of the expense of the manufacturer's local advertising depends on many things—the importance of the product in the dealer's sales volume, his extent of control of local distribution, the real value of the advertising material and the degree to which the material advertises the dealer and his store as well as the manufacturer and his product.

REVIEW

What factors influence a dealer in buying goods?

How does a manufacturer get distribution to retailers: (a) when selling by mail, (b) when selling thru salesmen?

How can the manufacturer aid the salesmen before they go into the field?

What methods are used to cover country trade on which salesmen are unable to call at regular intervals?

How does a manufacturer induce dealers to stock his entire line?

How can a manufacturer supplement the work of his salesmen between the visits to retailers?

Define a missionary salesman.

How would you conduct an intensive selling campaign?

State some ways in which manufacturers may obtain dealer cooperation.

CHAPTER XIX

RETAIL STORE PROBLEMS

1. *The retailer's special interests.*—All the preceding chapters have had a bearing on retailing, altho the point of view has been in the main that of the manufacturer and wholesaler. In the present chapter and the two which follow, specific problems of merchandising are considered primarily from the viewpoint of the retail dealer. They have to do with some of those phases of store management which are not concerned exclusively either with advertising or with personal salesmanship.

2. *Choosing a community.*—When a prospective retailer is in the fortunate position of being able to select the community in which he is to operate, he will find his chances for success improved if he will base his selection on certain fundamental facts about each locality that is under consideration. What is the population? Is there a predominance of men or women? How is the population divided among nationalities and races? To what extent and how do racial differences govern buying habits and retail relations?

What is the buying power of the people? How do they earn a living? What are the weekly pay-rolls

of the town? Are the local industries on an all-year-around basis, or are seasonal shut-downs common? Are the industries long-established or are they new and uncertain? If the contemplated location is a country town, what are the conditions of soil, climate, and tillage that determine the prosperity of the surrounding farm community? Do the farmers own or rent their places? Are the farms occupied or is there a movement away from them? What kinds and quantities of crops are raised?

Is the town increasing in prosperity, is it standing still, or is it on the down-grade? How strong is the spirit of community pride and cooperation? Is the town a shopping center for the surrounding country, or does it lose to other towns more trade than it receives from them? How accessible is the community to others—are there railroads, good roads, trolley lines? Is it a mail-order stronghold? What are the rents, taxes and insurance rates? Are there good newspapers and other established advertising media? How about competition? Is it aggressive or passive? Is there room for a new store? All these things and many more should be considered by the prospective merchant before he entrusts his capital and his enterprise to retail risks in any city or town.

3. *Selecting a location.*—In selecting the best place to establish a store within a community, many of the same considerations apply as in the selecting of the community in which to operate. Population, local buying power and transportation lines are important

to the merchant who can not establish himself in the center of the town. If he is to rent, he must establish a limit that he can pay and then find the best situation available for that amount of money. What he can pay depends on the kind of trade to which he intends to appeal and the basis on which he expects to get business. The price appeal will often draw people off the main street and even off the street level. Upstairs locations, however, are for good reasons little liked. The relation to other stores is important. The aggressive merchant is not afraid to do business side by side with competitors; if he can get a site where the people come to buy, he will take the risk of getting his share of the trade.

Experienced merchandisers, notably the chain stores, pick locations almost on the basis of an exact science. When considering a new site, they clock the passers-by at various times of the day and on all days of the week. They know how many of the passers-by are men, women, or children. They study the direction of traffic and analyze the conditions that direct attention and trade to specific blocks and specific points within each block. They know which side of the street is preferable in each individual case, not relying entirely on the commonly accepted generalization that the side shaded from the afternoon sun is usually the better for stores appealing to women. Before making any effort to obtain a site, they can closely approximate the number of customers the store will have from the first day of its opening.

4. *Influence of location.*—A good or bad location does not make or break a store. Good management will draw trade anywhere. Location is important only as it handicaps or helps a merchant. Brains can make a merchandising success in almost any location, but the success will be hastened if the physical environment is helpful rather than harmful.

5. *Analyzing a retail market.*—After a merchant is established, he may conduct his business in two ways. He may settle down into a storekeeper, content to watch the passing tide of trade and to serve such parts of it as casually drift into his store, carrying the kind of stock that satisfies his own preferences and that sells moderately well to his customers. Or he may be a real merchant, studying closely the people and the territory that he must appeal to if his business is to grow, scheduling his own forces and the forces of competition as a general does when he goes into battle, analyzing wants and tendencies on the part of his trade and in all ways adapting his methods and his stock to the specific requirements of the market on which he must depend for his success. Market analysis is often thought of as applying only to a manufacturer's or jobber's problems. It is equally applicable in the retail field.

6. *Purposes of market analysis.*—Many of the points outlined in previous chapters on study of the market and methods of reaching the market are helpful to the retailer who seeks to find out all he can

about the people who might buy what he has to sell. He should be informed, too, on all the points that have been listed as important in selecting a location for a store. Retail market analysis has two main purposes. One is to ascertain consumer wants and to prepare to satisfy them by a realignment of store stocks and store practices. The other is to find the most effective methods of extending the store's radius of appeal and to find the most economical and profitable methods of carrying the store's appeal to the public.

7. *Extending the retail fields.*—Many stores operate only in a limited field because their proprietors do not take the trouble to study the field and to extend it. Retailing is sometimes considered a business of small possibilities except for the proprietors of department stores, chain stores, mail-order houses and down-town specialty stores. If its possibilities are narrow, the fault lies more with the retailer than with retailing. Probably there are types of stores that must always rely exclusively on neighborhood trade but for the most part the retailer's field is what he chooses to make it. This generalization is subject to reasonable interpretation. It does not mean that the specialty store in an out-of-the-way section of a city can draw trade from other cities, nor does it mean that a down-town store can often grow to national proportions. It is true, however, that many retail stores are operating in fields re-

stricted by the lack of vision of their proprietors. Market analysis is the means of translating business vision into tangible achievement.

When people want to compare values before making purchases, a store can pull trade from a long distance. Shopping lines, we have found, are those that usually involve considerable expenditures, altho in the field of women's wants minor items are often bought on a shopping basis. Stores that appeal to the shopping trade normally have a wider natural territory than those that sell convenience goods—goods bought because of habit, convenience, or impulse. A woman's clothing store can easily draw trade from a distance. A grocery store has greater difficulty in extending its field. The store dealing in convenience goods, however, is by no means cut off from development. Under good management and with attractive appeals, it can and does extend its territory much beyond the narrow neighborhood that the unprogressive store is content to serve.

8. *Applying the results of analysis.*—The facts discovered by market analysis—population, age groups, nationalities, incomes, social life, economic standards, buying habits, competition, transportation facilities and all the other facts about the market and methods of reaching it—should be interpreted in terms of the individual store's stock. A dealer in men's and boys' clothing may endeavor to find out the number of suits of clothes bought in his territory in a year, the grades of clothing bought and the quantities of each, the places where they are bought, his own ability to satisfy local requirements, his own sales per capita and per family and the opportunities to increase his sales and the methods most likely to be effective. This is elementary but it suggests the information a retailer should have about each item in his stock. Retail market analysis carried to this extreme is unusual. Perhaps that is the reason for the general belief that a retail business must normally be a small business.

9. *Retail service.*—It has been said that the reason some stores succeed while others fail is that the successful ones render service and the others do not. This is true in the sense that any business enterprise must serve the community in some way if it is to exist. It is also true if by service is meant good values, intelligent buying, and courteous and helpful selling. Too often the retailer thinks of service in other terms. Under the guise of service, many retailers have built up a heavy structure of overhead expense—rest rooms, first aid equipment, professional shoppers, free lectures and concerts, check rooms, sales on approval, elaborate store fixtures, expensive floor space given over to unprofitable lunch-rooms, unnecessarily expensive delivery, too extended credit facilities and many other things all designed to make the store an attractive place to trade. There can be no quarrel with the purpose of these things, nor are all of them unnecessary. Some of them are useful and profitable. The trouble is that service, in the

sense of giving the customer something more than he openly pays for, is likely to be carried to unprofitable extremes and to add a fixed charge to the expense of doing business that keeps up prices and really limits the opportunity for large development. As advertising, these so-called forms of service may be effective but their efficiency should be judged on exactly the same basis as any other form of advertising—the relation between the expense involved and the profits to be derived from resulting sales.

10. *Value of fixed policies.*—A business with established policies may be compared to a man with fixed principles. An unprincipled man does not necessarily do everything wrong but he does many things wrong because he has no standard of conduct to guide him. So a business without fixed policies may not be unsuccessful but its many mistakes and vacillations are likely to alienate trade and handicap its future. A mere storekeeper buys a stock and does the expedient thing from time to time to sell it. A merchant has a definite goal; he decides in advance the basis on which he intends to appeal for trade and the kind of reputation that he seeks to build up. He does not do the merely expedient thing; he makes all his actions conform to the plan he has laid down for the future of his store.

11. *Advertising policy.*—Among the matters of policy that should be fundamental in a retailer's plans are his attitude toward nationally advertised goods and toward exclusive agencies. These have

been considered in preceding chapters. Another point of policy is the extent to which the retailer is to use his own advertising to attract trade and forms in which he is to employ it. Few retailers consciously set their faces against advertising. Relatively few have a definite policy with respect to its use. Many dealers think they are advertising when they are simply spending money. One of the easiest and most alluring ways to dissipate resources is to attempt to enter the advertising field with little knowledge and less ability and to buy space in this or that medium on a hit-or-miss basis, influenced chiefly by the oratory of solicitors, and to prepare copy on the basis of its appeal to the writer rather than to the reader. The retail advertiser must above all else avoid waste circulation. It is obvious that advertising in newspapers of citywide circulation would often be wasteful for the neighborhood store so situated that it can draw its trade only from a limited area. Conditions force such a store, when it advertises, to lay stress upon various forms of direct advertising.

Advertising is a major problem in a retail store—it might almost be said to be *the* major problem. A definite purpose and a definite plan with a specific appropriation and foreknowledge of the occasions and the manner in which the appropriation is to be invested are the first requisites for retail advertising success.

12. *Price policy.*—Price policy is at the front of retail problems. It is possible to build a business

almost entirely on a cut-price basis. It is also possible to build it on a strict adherence to market prices, with only occasional reductions and clearing sales. It can not be built on both bases and at the same time build up a homogeneous clientele. A store is known by its prices just as much as by its stock and its service. The policy of one price to all is now so generally established as to need little comment. More and more, too, the marking of goods in plain figures instead of in cabalistic symbols is increasing the confidence of the public in the fair intentions of retail dealers. Nothing else a store can do to establish its individuality is more influential than the price policies on which it normally operates.

13. *Money-back policy.*—The policy of refunding the purchase price when customers wish to return purchases is now so generally established that it is difficult to realize that its wisdom was ever questioned; yet it is only a few decades ago that "your money back if you want it" came into vogue. This policy removes suspicion and establishes good-will. It holds customers and does much to build a permanent following. An application of the money-back policy in some form is absolutely essential to retail success. The policy is often abused. It is abused by retailers themselves who unduly encourage the delivery of goods on approval, thereby contributing to their own losses; and it is abused by careless and dishonest consumers. Many retailers are cooperating to prevent its abuse, in that way insuring the

continuance of a policy of fairness and liberality which is demanded both by consumers and by the good business judgment of retailers.

14. *Adjustment policy.*—Closely allied to the policy of refunding the purchase price is the method of handling complaints. It is not possible for all customers to be satisfied with goods and treatment all the time. Complaints are bound to develop. The method of handling them is an important cause of success or failure in retailing. Between the principle that "the customer is always right" and the opposite extreme of surly refusal to make any adjustments, there is ground for many variations of policy. The best practice is to encourage complaints. The dissatisfied customer, who says nothing for fear of having her word or motive questioned or because of a cynical belief in the futility of a complaint, forms the nucleus of a circle of discontent that will cause the loss of much business. On the other hand, there is no better advertisement than a dissatisfied customer whose complaint has been handled in an unexpectedly liberal way. So valuable is liberality in making adjustments as a source of satisfaction and public confidence that a dealer can well afford to adopt a policy which may result in his being imposed upon occasionally but which will be well worth its cost as an advertisement for his store.

15. *Store individuality.*—When a man makes a success in business or a profession, in politics or society, we find that he has marked individuality or dis-

tinction, that he possesses strongly some characteristic or characteristics that lift him above mediocrity and set him apart from the crowd. His distinction is not the result of his success; his success is partly due to the distinctive qualities that he possesses—unusual mentality, courage, will-power, executive ability, persistence, or personal charm. It is the same with a retail store. Go up and down the streets of a city, and you will find hundreds of small shops, all more or less alike, handling different kinds of goods to be sure, but all partaking of a common drabness of tone and conducted by individuals infinitely different in countless respects but without the outstanding marks of distinction that set them off markedly from their fellows. Here and there is a store that is different. Its name is known far beyond its immediate neighborhood. It is one of the leaders in the merchandising community. Why is it a leader? Because it has real distinction, real individuality, because it is animated by a person or a group of persons who in themselves possess the qualities of distinction and who have put their personality into their business.

No store can be largely successful unless it stands out prominently from its competitors in some respect. Store individuality is obtained in many ways—unusual courtesy on the part of all employes, a distinctive style of advertising, peculiar excellence of stock and assortments, a reputation for special values in certain lines of goods, unique appearance or arrangement of the store, an intangible spirit of helpfulness and friendliness, liberality in adjustments—these and many other things are available to the dealer who realizes that mere storekeeping has few rewards but that retail merchandising, on the basis of attractive individuality of the store, its stock, its employes and its methods, is one of the most profitable methods for the employment of capital and business ability.

REVIEW

What facts should be considered by the retailer in choosing a community in which to establish a store?

Having chosen a town or city, what influences should be considered in choosing a site for the store?

How can a merchant analyze his market? What is the value of such analysis? How can it be applied?

Discuss retail service.

Why should a merchant adopt fixed policies in retailing? Discuss some of them.

Give some ways in which store individuality may be obtained.

CHAPTER XX

TURNOVER, MARK-UP, AND PROFIT

1. *What is turnover?*—A merchant's investment in his business consists of his brains and his capital. He is most successful when he uses his brains to direct the use of his capital to the best advantage. One of the most important measurements of the advantageous use of capital is the rate of turnover. The principle of turnover is simple. A merchant has $10,000 to invest in stock. If his sales in the course of a year, figured on the basis of cost price of the goods sold, amount to only $10,000, he has had a one-time turnover of capital. His total selling and other expense must be allocated to the goods sold and, if he seeks a 6 per cent net profit on his capital investment, he must get that amount of net profit on each individual sale. Suppose, however, that with the same capital investment his annual sales, still figured on the basis of cost price of goods, amount to $20,000. He has had a two-time capital turnover. If his expenses have not been increased, the allocation of expense to each sale may be cut in two and he has to make a net profit of only 3 per cent on each transaction in order to show an annual net of 6 per cent on his capital investment in stock. Without attempting to follow precise accounting technic, this illustration of the principle of turnover indicates its very great importance in merchandising. In the opinion of many people the rate of turnover is the most important single factor in determining retail success.

The importance of turnover is recognized by many merchants who fail to use the word in its precise meaning and who figure turnover inaccurately. The method of computing turnover is a matter that lies partly in the field of accounting. This is not a text on accounting but there is entire propriety in including here a brief treatment of a semi-accounting principle that is the very foundation of successful merchandising.

2. *Two kinds of turnover.*—There are two kinds of turnover—stock turnover and merchandise capital turnover. The latter has already been illustrated. Stock turnover is the more important as a measure of success. The basing of turnover on the amount of capital invested in stock leaves out of consideration the fact that stock is often bought on temporarily borrowed capital. The live merchant uses his borrowing facilities as freely as he uses his own capital. Therefore true turnover is stock turnover—the rate of movement of goods in and out of the store, regardless of the particular fund that is drawn upon for their payment.

3. *Methods of figuring turnover.*—Stock turnover can be ascertained in three ways:

Method No. 1: Total sales for the year, divided

by the amount of average inventory figured at its full selling price, *and not at cost price.* If annual sales are $50,000 and during the year there has been in stock an average supply of goods having a selling value of $10,000 there has been a five-time turnover.

Method No. 2: Total sales for the year, figured on the basis of cost price of the goods sold, divided by amount of average inventory taken at cost price.

Method No. 3: Cost of goods sold during the year plus the year's overhead expenses, divided by the average inventory taken at cost figures plus the average overhead for any specified period.

It is important that both sales and inventory be figured on the same basis. Dividing selling price totals by a cost-price inventory gives obviously inaccurate results. It is also vital that the inventory be an average for the year and not a specific inventory as of any one time. Method No. 1 is generally favored. It is accurate if inventories can be taken at selling prices that represent actually what the goods will bring and not merely what the merchant hopes they will bring. Few merchants know precisely what any item will be sold for; special sales prices to move slow sellers may upset the inventory estimates to a degree that will appreciably affect the accuracy of Method No. 1. Unless fixed mark-ups are the rule in a business, Method No. 2 is the more accurate method of figuring turnover. Perhaps the best plan is to convert all sales and inventory figures into both cost price and selling price, and to figure turnover

by both methods. The comparison of results will be interesting as indicating the extent to which expected selling prices have been realized.

4. *Value of stock control.*—Turnover can at times be advantageously figured on other than annual figures. If a stock is unusually active, valuable control can be exercised by figuring turnover for each month or for any other part of a year. Figures for the turnover of the entire stock should be supplemented by figures for the turnover by departments and by individual items in the stock. Records carried to this extreme are unusual but they are of great value in determining what are the quick and the slow sellers and in putting the stock on the most profitable basis. The cost of control records is an item that keeps many merchants from maintaining them. This is unwise economy. Some form of perpetual inventory or of frequent actual inventory, divided into departments and classes of goods, with sales records similarly subdivided, provides the basis for that careful figuring of stock turnover without which a merchant operates largely in the dark. The dealer who does not know his stock turnover is hardly entitled to the name of merchant.

5. *What is profit?*—Price and profit policies in a retail store are subject to much the same principles as those governing the price policies of manufacturers and wholesalers. These have been treated in a preceding chapter. We are concerned now with definitions and with the relation of profit and selling price

to cost. To the layman, profit often means the difference between cost price and selling price. This inaccurate use of the term is responsible for much wrong thinking and much of the unjustified criticism leveled at the merchandising system. Business men have contributed to the difficulty by using the word profit in two senses—gross profit and net profit. When gross profit means the difference between cost price and selling price, it is not profit at all. There is only one real profit, and that is net profit—the amount left for the proprietor after expense incident to the purchase of goods and to the conduct of the business has been charged off. It would be well to discard entirely the phrase gross profit and to substitute for it the words margin or mark-up. As long as business nomenclature recognizes the use of the word profit to mean anything else than net profit, people will continue to misunderstand merchandising and to think that a merchant is pocketing fifty cents for himself when he buys an article for fifty cents and sells it for a dollar.

6. *Factors in selling prices.*—A retailer's selling price includes three factors—cost of the goods, all expenses of doing business and net profit. Cost of goods should include incoming freight and drayage. Expense should include every cent paid out for any purpose in connection with the business, except the cost of the goods laid down in the store. A suitable charge for depreciation of stock should be included in expense. Expense should also include compensation to the merchant and any members of his family who work in the store. Payment for their time and skill must be taken care of before there can be any profit from the business. The margin or mark-up is the difference between the laid-down cost of the goods and the final selling price. It consists of expense and of profit—and expense is likely to be much the larger part of the whole.

7. *Mark-up.*—Mark-up is figured in percentages. A merchant, knowing his expense of doing business and knowing the profit that he wishes to make on each transaction, arrives at a figure that can be added to every cost price so as to cover his expense and to leave a net profit after the goods are sold. If an article costs two dollars, a mark-up of fifty per cent of cost produces a selling price of three dollars. The principle is simple; its application, however, is often productive of loss.

8. *Importance of a common base.*—Difficulty arises when there is a failure to figure percentage of expense, percentage of profit, and percentage of mark-up, all on the same base. Obviously percentage of expense and percentage of profit can not be added together to get percentage of mark-up unless they are all percentages of the same thing—in the same way that it is impossible to add one-half of a potato and one-quarter of an onion and get three-quarters of anything. It is strange that this simple truth should have been so often neglected in retail merchandising.

Assume an average retail stock of $10,000 cost price; and on each turnover a pro rata expense of $5,000 and a profit of $3,000. The total mark-up is $8,000, and the selling price $18,000. The mark-up is eighty per cent of the cost price, but only forty-four per cent of the selling price. The expense percentage is almost always figured on selling price. In the present case, expense would figure approximately twenty-eight per cent ($5,000 divided by $18,000). At this point practice divides. In the past many dealers have figured profit as a percentage of cost instead of selling price. A profit of $3,000 is thirty per cent of cost price but only a little more than sixteen per cent of selling price. It is not possible to add twenty-eight per cent of selling price and thirty per cent of cost price and get a result that means anything—and yet this is what many dealers have tried to do. Consider a more simple problem:

An article costs four dollars; expenses are twenty-five per cent of sales; desired profit is ten per cent of cost. What is the proper selling price and what is the percentage of mark-up? The selling price would be found as follows:

Cost	$4.00
Profit (10% of cost)	.40
This figure is 75% of the selling price, the other 25% representing expense	$4.40
Selling price	$5.86

The mark-up, the difference between cost and selling price, is $1.86 or approximately 46 per cent of the cost. It is clear that if we should forget that the 10 per cent profit and the 25 per cent expenses were calculated on different quantities and should figure on 35 per cent advance over the cost price, the selling price would be $4.00 plus 35 per cent of $4.00 ($1.40) or $5.40. But does this give us the desired profit of 40 cents? By the terms of the illustration selling expenses were 25 per cent of sales. Calculating this on $5.40 we have $1.35 and adding this to the cost of the article we have total of $5.35. Thus our profit has dwindled to 5 cents. This illustrates the dangers and arithmetical complications resulting from figuring profits on cost and expense on selling price, and then trying to find a mark-up that is fair to both.

9. *Benefits of using selling price as the base.*—It makes little difference, as far as computations are concerned, whether both expenses and profits are based on cost or on selling price. There is no good reason, however, for basing expenses on the cost of the goods sold. It is sensible and easy to base it on selling price—one dollar comes into the business, expenses eat up thirty cents; therefore selling expenses are thirty per cent. To be consistent and to avoid loss, profit percentage should be handled in the same way. After thirty cents have been taken from the incoming dollar and sixty cents paid to suppliers of goods, there remain ten cents as profit, or ten per cent of the selling price. The cost of

goods is only one of the costs of a retail store. There seems to be no better reason for figuring profit as a percentage of cost of the goods than there would be for figuring it as a percentage of the rent paid for the store.

Altho the modern practice is to figure both expense and profit as percentages of selling price, it is not so important that this be done as it is that both be figured on the same base. Selling price as a base is favored because it results in a smaller percentage of profit than when profit is figured on cost. The smaller figure is preferable because it encourages the dealer to add to his laid-down cost a percentage that is really essential to his success and because it tends to correct the mistaken idea of employes and the public as to the size of the dealer's net return. Selling price is the more desirable basis of figuring profit also because it requires the merchant to know his actual cost of doing business at all times—he is forced to give due consideration to expense as well as to laid-down cost in figuring his mark-up.

10. *How mark-up is figured.*—The merchant who figures both expense and profit as percentage of sales should have at hand a table to enable him to translate percentages of selling prices into percentages of cost. If expense is twenty-five per cent of sales, and desired profit is also twenty-five per cent of selling price, the mark-up, figured on selling price, is fifty per cent. Fifty per cent of selling price, however, is one hundred per cent of cost. In this case

the cost price must be doubled to cover cost of goods, expense and desired profit.

The accompanying table, or one prepared in a similar way, enables the dealer to translate immediately given percentages of expense and profit (both based on sales) into the required percentage mark-up on cost. For example, expense is twenty-five per cent and required profit ten per cent. Find twenty-five in the first vertical left-hand column and ten in the horizontal column at the top of the chart. Draw a horizontal line thru twenty-five and a vertical line thru ten. Where they meet will be found the figure fifty-four. Fifty-four per cent must be added to the cost of an article to cover the given expense and the required profit. Proof:

Selling price is	100%
Expense, figured on selling price, is	25%
Profit, figured on selling price, is	10%
Total mark-up, based on selling price,	35%
The cost of the goods, therefore, must be	65%

Assume the cost is $1.00. One dollar is 65% of $1.54. The mark-up is fifty-four per cent of the cost.

MARK-UP CHART

Find expense percentage of selling price in first vertical left-hand column. Find profit percentage of selling price in horizontal column at top of chart. Percentage of cost that must be added to cost price is figure at intersection of horizontal line drawn thru expense figure and vertical line drawn thru profit figure.

%	1	2	3	4	5	6	7	8	9	10	12	15	20	25
7	8¾	10	11	12⅔	13⅔	15	16¼	17⅔	19	20½	23½	28¼	37	47
8	10	11	12⅔	13⅔	15	16¾	17⅔	19	20½	22	25	30	39	49¼
9	11	12⅔	13⅔	15	16¼	17⅔	19	20½	22	23½	26½	31½	41	51½
10	12⅔	13⅔	15	16¼	17⅔	19	20½	22	23½	25	28¼	33⅓	43	54
11	13⅔	15	16¼	17⅔	19	20½	22	23½	25	26½	30	35⅛	45	56½
12	15	16¼	17⅔	19	20½	22	23½	25	26½	28¼	31½	37	47	58¾
13	16¼	17⅔	19	20½	22	23½	25	26½	28¼	30	33⅓	39	49¼	61⅓
14	17⅔	19	20½	22	23½	25	26½	28¼	30	31½	35⅛	41	51½	64
15	19	20½	22	23½	25	26½	28¼	30	31½	33⅓	37	43	54	66⅔
16	20½	22	23½	25	26½	28¼	30	31½	33⅓	35⅛	39	45	56¼	69½
17	22	23½	25	26½	28¼	30	31½	33⅓	35⅛	37	41	47	58¾	72½
18	23½	25	26½	28¼	30	31½	33⅓	35⅛	37	39	43	49¼	61⅓	75½
19	25	26½	28¼	30	31½	33⅓	35⅛	37	39	41	45	51½	64	78½
20	26½	28¼	30	31½	33⅓	35⅛	37	39	41	43	47	54	66⅔	81¾
21	28¼	30	31½	33⅓	35⅛	37	39	41	43	45	49¼	56¼	69½	85¼
22	30	31½	33⅓	35⅛	37	39	41	43	45	47	51½	58¾	72½	88⅔
23	31½	33⅓	35⅛	37	39	41	43	45	47	49¼	54	61⅓	75½	92⅓
24	33⅓	35⅛	37	39	41	43	45	47	49¼	51½	56¼	64	78½	96
25	35⅛	37	39	41	43	45	47	49¼	51½	54	58¾	66⅔	81¾	100

Note. The above table is one used by a mercantile firm. It is to be understood that the figures have in many cases been rounded off to convenient fractions.

REVIEW

What are the two kinds of turnover? Define stock turnover. How is stock turnover figured? When should each method be used?

Define profit.

What factors go to make up retailer's selling price? What should be included under each factor?

How is mark-up figured? What mistakes have been made in figuring it?

Give an illustration of the proper way to figure it?

CHAPTER XXI

BUYING AND MERCHANDISE MANAGEMENT

1. *Relation of buying and selling.*—Merchandising consists of two main activities—buying and selling. They are equally important, just as production and selling are equally important in a manufacturing business. Their equality in a manufacturer's organization is recognized by placing them in charge of coordinate executives. In a dealer's organization there is no such division. It is characteristic of retail and of wholesale selling that buying and selling are generally under the immediate supervision of the same individual. There is no technic of manufacturing to require the attention of specialists; goods are sold in the form in which they are bought, and the functions of studying demand, buying to satisfy demand, and bringing the goods to the attention of customers are so intertwined that they can not be separated in either theory or practice. There is an old saying that goods well bought are half sold. It is equally true that goods not well bought are the cause of loss rather than profit. Good buying is fundamental in merchandising success.

2. *How much to buy.*—The buying problem has

four phases—how much to buy, what to buy, when to buy, and how to buy. The problem of how much to buy is partly solved by applying the principle of stock turnover. In general, it is good practice to keep on hand the least amount of goods that will attract and satisfy trade, in order that the stock investment may be kept at a minimum and the number of stock turnovers be raised to the maximum. Buying only for immediate needs is an ideal that most merchants try to realize. This does not mean buying from hand-to-mouth, without regard to complete ranges of styles and sizes or without due consideration to the availability of additional supplies. It means buying with caution so as to avoid as far as possible the evils of over-buying.

3. *Evils of over-buying.*—The first evil of over-buying is the unprofitable use of capital. Money tied up in stock is still money even tho it may look like something else on the shelves of a store. No dealer has access to an unlimited supply of funds. His own capital and his borrowing capacity always have fixed limits. He can invest his available assets and credit in such a way as to get bare interest, or he can put them to work over and over again. To double the turnover is the same thing as doubling the amount of stock without increasing the investment. This is the essence of good business. Slow turnover increases interest charges. The live merchant is a frequent borrower. If the stock bought with borrowed money will sell in three months, he pays only

three months' interest; if it sells in six months, the interest charge is doubled.

Goods are bought to be sold at a profit. If something happens to reduce or eliminate the profit, the merchant loses. Mark-downs are usually the result of three conditions: too much stock on hand at the end of a consuming season; changes in style or demand that render some of the stock unsalable at the original profitable figure; and physical deterioration caused by frequent handling or too long a period of storage. Over-buying is often the cause of all these conditions.

Slow-moving stock causes many direct losses. Expensive time is wasted in trying to move it at a profitable price. Rewriting sales tickets and rearranging goods for mark-down sales take time and money. Shelf and storage room has a definite value, which is unprofitably consumed unless used for a constant flow of rapidly selling merchandise.

Finally, over-buying brings a store into disrepute. Fresh and timely goods are wanted by consumers. There is a distinct loss measurable in dollars and cents when the reputation of an establishment suffers from unpopular or shop-worn goods.

4. *Differences in turnover possibilities.*—The possibilities of turnover differ for different kinds of stores. Probably no jeweler, for instance, can ever approximate the fifty-two yearly turnovers of some chain groceries. Goods sold only or chiefly at certain seasons must necessarily show fewer turnovers

than those in demand the year around. Nevertheless no dealer is justified in thinking that his present turnover can not be increased. Increased profit thru increased turnover is a possibility for every merchant.

5. *Turnover and quantity prices.*—The legitimate desire of the merchant to increase turnover by buying frequently and in relatively small quantities is sometimes in conflict with the equally legitimate desire to get a minimum price or an especially favorable discount by buying in large quantities. The comparative advantages of the two procedures are subject to mathematical determination. An extra discount for a quantity purchase may or may not compensate for a decreased turnover. A merchant who knows his normal rate of turnover on the kind of goods under consideration can decide with reasonable accuracy the extent to which his turnover will be slowed up by a purchase of unusual size. He must, of course, take into consideration all the evils that might result from over-buying, and then balance the possibility of those losses against the extra discount to which the quantity purchase entitles him.

6. *May turnover be excessive?*—Despite the unquestioned benefits of rapid stock turnover, there is such a thing as trying to achieve too many turnovers. The carrying of too restricted a stock with inadequate assortments of sizes and styles, simply to reduce investment in stock and to increase turnover, will alienate trade and lose good-will to a degree that will

speedily ruin a business. A store can not do business unless it has goods to sell. Turnover is not a panacea. Like any other remedy for poor profits, it must be used with care and discretion.

7. *Buying seasonal products.*—When goods are sold to consumers only at certain seasons of the year, or when seasonal sales predominate, buying policy based chiefly on the desire for rapid turnover is often impractical and dangerous. There are many kinds of goods in this class—furniture, straw hats, jewelry, rubber footwear, clothing, and sport equipment, to name only a few of the outstanding examples. The marketing of seasonal products has long been based on the policy of advance orders from retailers, placed months before the beginning of the consuming season and determined by the retailer's expectations of seasonal demand. During the long period of generally rising prices, this policy was adhered to with little variation in most seasonal industries. When prices began to move downward, some dealers questioned the soundness of the policy and were tempted to withhold orders until seasonal demand prompted immediate purchases. Advance orders for seasonal goods are essential to the welfare of manufacturers, dealers and consumers alike.

8. *Why advance orders are necessary.*—The manufacturer of seasonal products, like every other manufacturer, can produce economically and efficiently only if his output is relatively even thruout the year. To schedule safely an even production, the

machinery of distribution must keep pace with the machinery of manufacturing; goods intended for consumption in December must begin to move out of the factory many months before that time. Without undue risk, production can begin long in advance of consumption only if a reasonable amount of advance orders are in hand. The movement of goods thru the channels of trade from the raw material stage to the finished product on a retailer's shelves can not be accomplished in a short time. It takes months for a factory's output to take finished form and to work its way thru the nation's intricate distributing machinery. If the retailer is to have seasonal goods when he wants them, he must begin to take them long before he needs them.

Every manufacturer must largely depend on the trade to aid him in forecasting consumer demand for styles, colors and types of products. The manufacturer of an all-year seller can assume the risk of consumer demand for himself; he can put out a trial style and quickly withdraw it if it does not meet with popular favor. Not so with the manufacturer of seasonal products. Styles must be set far in advance of demand, and goods must be produced in quantities on the faith of the producer. Without advance orders from the trade, he can forecast demand only with the greatest difficulty.

Seasonal products are subject to two kinds of risk—the risk of unpopularity of styles, and the risk of unseasonable weather if the product depends on

weather conditions for its sale. These are risks which properly are borne by the whole industry, dealers as well as manufacturers. The dealer is just as much a part of the industry as the manufacturer, and he can not rightly place the whole burden of risk on the manufacturer. He can assume his part of the risk by estimating his own share of demand and placing advance orders to cover at least a part of his expected requirements.

Finally, advance orders for seasonal products are necessary for the economical financing of manufacturing. Invoices for goods of this sort are usually dated at the beginning of the consuming season, with liberal discounts for payment in advance of the due date. The dealer who accepts early delivery and takes advantage of the anticipation discount helps to provide the manufacturer with capital to run his business on the economical all-year-around basis. When the dealer is asked to help the manufacturer in this way, it is customary and equitable for the manufacturer to protect him with guarantees against price decline.

9. *Results of withholding advance orders.*—When dealers withhold advance orders for seasonal goods, the first result is to slow up production and to cause scarcity of goods during the consuming season. Manufacturers can not quickly adjust themselves to such revolutionary procedure. Without advance orders, they find themselves with no certain knowledge of demand, with inadequate operating capital, and

with a burden of risk that they are unable to assume alone. Goods are not produced in sufficient quantity; those that are produced can not reach all consuming centers in time for consumption; goods are scarce when they are wanted; and increased prices are the inevitable result.

If the withholding of advance orders continues and manufacturers adjust themselves to the new conditions, the adjustment necessarily takes a form which tends to increase prices. The manufacturer must do three things—all of them expensive. He must provide his own warehousing facilities scattered thruout the country to take care of the constant output from his factory and to satisfy the trade's last minute requirements; he must add to his capital an amount sufficient to compensate for the advance payments on early deliveries to dealers; and he must assume the entire burden of risk of unpopular styles and unseasonable weather.

All of these things cost money, and the added cost must be added to the price of the product. Theoretically the consumer's price should be the same regardless of whether the manufacturer or dealer provides warehousing facilities, contributes capital for the industry and assumes the risk incident to the business. Actually the dealer will not exact any less margin if he throws these expenses back upon the manufacturer. The inevitable result is higher prices to the trade and higher prices to the consumer. Advance orders for seasonal products are necessary.

The withholding of them is disastrous and expensive for all factors in industry. The manufacturer of seasonal goods does not ask the dealer to bear all the burden of warehousing, risk and the providing of operating capital. He is willing and able to shoulder his share, which is usually the major share. He asks only that the dealer, as an essential part of the industry, take that part of the burden which rightfully belongs to him.

10. *How to increase turnover.*—Turnover is increased in two ways—increasing sales and decreasing inventories. Slow moving lines are eliminated or subordinated in the stock. New and rapidly moving lines are added. Purchases are concentrated among fewer and more profitable lines. Careful watch is kept so that goods on hand will not increase faster than sales. Salespeople are educated to make faster sales and to use all the available aids of advertising, display and consumer demand. Stock limits are established to prevent over-buying. The number of competing lines in stock is reduced. It is better to serve well in five lines by having five stocks of sufficient completeness to care for average needs, bought according to a merchandise plan built on a knowledge of community requirements, at the lowest quantity price, with deliveries according to seasonal needs, than in fifteen lines, none of which is complete or bought on advantageous terms. A merchant is in business to give people what they want but it is not necessary to add greatly to stock investment by being prepared to satisfy every unusual demand that may make itself felt. The modern movement is toward fewer competing lines and more complete stocks in each line carried.

11. *Buying by quotas.*—A good merchandising plan is based on the amount of business that should be done during a season. This is split up into quotas for each month for each department of the business. The ideal is to clean the shelves at the end of the season. From this basis, estimates are made of sales and stocks on hand for each week in the season. Knowing what must be bought and when it should be bought, the merchant allots to each department for each week or month a maximum buying quota and, as purchase orders go thru the office, the purchases are deducted from the allotment. Such a system is useful if it is not too mechanical. There must always be leeway to provide for unusual requirements and unforeseen contingencies. Properly organized and liberally administered, a system of buying by quotas is an effective aid to stock control, without which the purchases of a large establishment can not be organized on a basis that is fair to all departments and that insures the most profitable use of the capital of the business.

12. *The merchandise department.*—In a large retail store the combined functions of buying and selling are usually centered in a merchandise department. The merchandise manager is the real merchant of the establishment. His is the responsibility of judg-

ing demand, watching competition, fixing buying policies and supervising sales. He must watch general market conditions, to keep in touch with the trend of prices and to take advantage of unusual offerings. He should in person or thru one of his assistants visit the markets frequently, to strengthen the relations between his establishment and his sources of supply and to be on the lookout for values and novelties. In larger department stores there may be many buyers, but they are usually under the direction of the merchandise manager, report to him, and are guided by him.

The merchandise manager, or the proprietor if he is his own merchandise man, should make a continual study of those community and trade conditions which form the basis for a complete market analysis. It is necessary for him to keep closely in touch with competition. He may use "shoppers" to visit other stores, study their offerings, make purchases for comparison of values, and watch competing prices, advertising, and selling methods. A manufacturer may sometimes go his own way with only an infrequent close analysis of what competitors are doing. A retailer must make a daily study of competition. Even if he serves a unique clientele, attached to him by the strongest bonds of loyalty, his trade is secure only if he continues to serve at least as well as his competitors.

13. *Control of merchandise profits.*—Merchandise profits are controlled by the merchandise manager or

by the proprietor by watching slow-selling items, and by providing for their automatic appearance on the stock sheets. If the records clearly show slow-sellers, means may be taken to move the goods by special display or special offer before they have time to accumulate to an extent that results in deterioration and slows up turnover. Merchandise profits are also controlled by a careful scrutiny and approval of all purchase orders submitted by department heads, by checking of invoices to prove that merchandise is billed as ordered, by approving mark-ups before the goods are placed in stock, by requiring executive approval of all reductions in price before they go into effect, by watching the perpetual inventory and by frequent actual inventories, and by being certain that goods in stock for a certain arbitrary length of time come up automatically for consideration.

Buying and merchandising management in a retail store are intricate arts. They involve ample opportunity for loss when approached without experience, without system, and without discretion and judgment. When approached with the proper equipment of experience and discretion, they offer great opportunities not only for legitimate profit, but also for real service to the consuming public.

REVIEW

What are the four phases of the buying problem?
What are the results of over-buying?
Discuss the advantages of quick turnover as compared with trade discounts for quantity buying.

What limits turnover as a buying policy?

Why does the manufacturer have to be protected by advance orders? What effect has it upon the manufacturer when orders are withheld?

How is turnover increased?

Discuss the advantages of buying by quota.

CHAPTER XXII

THE COST OF COMPETITIVE SELLING

1. *Manufacturing costs and selling costs.*—The price that the consumer pays for manufactured goods depends primarily on the cost to manufacture and on the cost to sell. Before the beginning of the factory system of industry the cost to manufacture was relatively high and the cost to sell was negligible. The artisan working in his own home or shop made little more than could be sold to his neighbors or to nearby dealers and he incurred little expense in selling it. With the beginning of the factory system, mass production greatly reduced the unit manufacturing cost and increased the quantity of manufactured goods. For a while, selling continued to be a relatively unimportant problem. The markets of the world were eager for goods, and it took the output of the factories many years to catch up with insistent demand. With the gradual increase of production this condition changed. Competition arose to make it more difficult for the individual manufacturer to sell his output. All the developments of inventive genius and of the engineering sciences that have made the nineteenth and twentieth centuries eras of great material progress have operated to increase the sup-

ply of manufactured goods and to decrease the cost of production. These developments have brought manufactured products within the reach of constantly increasing multitudes, but they have also multiplied the selling problems of the manufacturer.

2. *The rise of public interest in selling.*—For many years the gradual increase of the selling cost per unit was more than matched by a decrease in the manufacturing cost per unit. As long as the tendency of prices was downward, the net result of the interplay of production costs and of selling costs was so satisfactory that little public attention was centered on the cost of the selling process. No one can say that the end has been reached in the movement to increase quantity, improve quality, and decrease the cost of manufacturing, yet it is reasonable to believe that this movement will be less rapid in the future than in the past. If that is the case, reduced selling prices, except as they result from lowered costs of raw material and labor, must depend largely on reductions in the cost of selling. The realization of this situation has centered public attention as never before on the actual and imaginary wastes and inefficiencies in selling. It is the duty of every manufacturer and distributor who believes in the competitive system of industry to justify that system by bringing to bear upon the problems of selling the same constructive thought that has brought manufacturing to its present state of efficiency.

3. *Reasons for high selling expense.*—The cause

of high selling costs is found partly in the great expansion of markets. Large-scale production has forced manufacturers to look far afield for their consumers. Selling costs increase in direct proportion to the distance between factory and consumer. Chiefly, however, increased selling costs are due to increased competition. The greater the number of manufacturers who seek business in a given market, the more each one is likely to spend to entrench his goods in popular favor. Disproportionate attention to production processes has also permitted selling costs to rise; every business operation must be watched with the utmost care if its cost is to be kept at a minimum. Lastly, selling costs, like all other costs, were tremendously increased by the conditions growing out of the Great War.

4. *Need of reductions.*—Today it often costs more to sell goods than to make them. A consumer's price, two, three, or four times the factory cost is not unusual. Out of every dollar taken in by a dealer, it is not uncommon for forty or fifty cents to go to pay the cost of doing business and to cover the dealer's profit. Many of these conditions can not be corrected. High selling costs are inherent in the nature of many businesses. But no business has a right to take its high selling costs for granted. No selling cost is justified simply because it exists. We have long ago abandoned tradition as a criterion of manufacturing efficiency, and it is high time that tradition as the sole guide in selling procedure be

forever cast aside. Every step, every activity in the selling process must be subjected to the careful scrutiny of enlightened self-interest. The manufacturer who fails to do his part in reducing the spread between factory cost and consumer's price is giving aid and comfort to those enemies of our present society who seek to substitute for competition the unworkable and destructive doctrine of universal communism.

5. *How reductions may be made.*—The method of reducing cost of selling must differ with each class of industry and with each separate business enterprise. Some general suggestions, however, are applicable to most manufacturers and to many distributors. The first problem is to reduce the actual outlay for selling expenses. The second is to reduce the percentage of selling expense to sales by increasing the efficiency of the selling process. The two problems are not distinct. The solution of one often carries with it the solution of the other.

6. *More economical sales channels.*—In reducing the actual outlay for selling expenses the first step is for each seller to scrutinize his sales channels, and to find the shortest route to the consumer that is consistent with service and economical distribution. This does not mean eliminating the middleman; we have found that the middleman is an absolute essential in many industries. It may mean, tho, eliminating some middlemen in some industries and in changing the functions of others.

7. *Standardization.*—Standardization of sizes and styles offers an important opportunity for reducing selling expenses. One seller found that ninety per cent of his business was done on fifteen per cent of the goods he carried in stock. Where such a condition exists, it may be neither possible nor expedient to eliminate the eighty-five per cent of slow sellers, but there is certainly a chance to make some adjustments that will tie up less capital and increase stock turnover.

8. *Increased turnover.*—A universal application of the principle of small stocks and quick turnover will do much to decrease selling costs. Perhaps the disregard of this fundamental of successful merchandising has been the most important single cause of high sales expenses. There is scarcely a business that can not in some degree reduce its stock investment and thereby increase the rapidity of its turnover.

9. *Elimination of unnecessary service.*—Many expensive items of service have grown out of the desire of one manufacturer or dealer to outstrip his competitor and, being adopted by all competitors, have become burdensome loads on industry and on the consumer. Unjustified extension of credit, unreasonable free delivery and undue provisions for the entertainment and pleasure of customers have fastened heavy burdens on many businesses. There is always a temptation to base competition on these extraneous forms of service. It is time that there was a general realization that real service to the customer consists

of courteous treatment, intelligent buying aid, and quality goods at minimum prices and in some instances help to the customer in the use of the goods purchased.

10. *Better planning.*—Reductions in selling expenses are possible by providing for better planning in the use of samples, better routing of salesmen, careful comparison of means of conveyance of salesmen and their equipment, the elimination of competition within an organization and by intensive study of every item that absorbs any of the outlay for sales expenses.

11. *Need of more effective sales management.*—Actual reduction of selling expenses is one phase of the problem. The other is reduction of the percentage of selling expenses as measured against sales. The solution of the second phase of the problem is found in better sales management. We have progressed a long way since the time when a new salesman was hired in the morning, interviewed by one or two executives, and sent out in the afternoon with a sample case, a route list, and the parting injunction to keep down his expenses—but we have still far to go. The ratio of sales expense to sales volume can be reduced by more careful and scientific selecting and training of salesmen, by the development and use of systems of compensation that induce the salesmen to get best results at minimum costs, by market analysis that permits the accurate fixing of quotas and the most economical and effective use of the salesmen's

time and efforts, by better organization of territories and working plans for the sales force, by more carefully planned advertising based on every aid that psychology and experience can bring to bear upon the problems of mediums, copy, and display, by the use of methods that will prepare the way for the salesmen and conserve their valuable time, by combining in the most effective way appeals by mail with appeals by salesmen, and by making every possible effort to reduce the tremendous loss of salesmen's time in industries characterized by seasonal demand.

12. *The seller's responsibility.*—When sales expenses are high and distributor's profits are narrowing, it is the natural tendency for dealers to seek increased discounts from manufacturers. This is not the way to decrease selling prices. Increased discounts only add to the ultimate burden of the consumer. On manufacturer and dealer alike there rests the vital duty of combing selling processes until the last shred of waste and inefficiency disappears. This is the task of the era on which we are now entering. On the success of the business world in solving the problem of decreased selling cost will partly depend the permanency of our industrial and social system.

13. *Is competition an evil?*—The high cost of selling is not a good reason for an indictment of the present marketing system, altho, if permitted to continue unchecked, it may be used as an excuse for such an indictment. Criticisms of the competitive system of selling are the natural result of the growing

public consciousness of marketing machinery. A knowledge of the technic of selling is no longer the exclusive prerogative of the manufacturer and merchant. The wheels of the marketing machine revolve in plain sight of every one who cares to watch them. Advertising and the insistent appeals of multitudes of salesmen have brought the mechanics of selling into public prominence. It is not strange that all this machinery should have drawn the attention of those who believe something is wrong with the present organization of industry, and who seek to find the remedy. It is charged that the large investments in advertising are responsible for high prices; that there are too many salesmen, too many middlemen, too many appeals to the public, and too much buying; that the world is living beyond its means, and that this or that phase of marketing is chiefly to blame.

14. *Two kinds of criticism.*—It is important that manufacturers and merchants should be able to reply to these criticisms, and that they should be sure in their own minds that their selling activities are not out of tune with the trend of the times. They will have to meet, in general, two types of criticism: one, that any kind of intensive selling, whether carried on by advertising or by salesmen, must necessarily increase the price charged for the article so sold; and the other, that competitive selling of any sort is wasteful, wrong, and a burdensome outgrowth of an unwise capitalistic system.

15. *Identical effects of advertising and personal selling.*—The charge that intensive selling necessarily increases the price of the article sold is usually leveled at advertising. This is illogical. Advertising and personal salesmanship must stand or fall together. In principle, the telling of a sales story to ten thousand people at a time by a printed advertisement is no different from the telling of the story to each possible buyer in turn, either over the counter of a retail store or by a salesman calling on the prospective buyer. The effect of intensive selling on the selling price must be the same in kind, altho perhaps not in degree, no matter what method of intensive selling is used.

16. *Influence of intensive selling on retail prices.*—In a retail store, properly directed intensive selling lowers selling prices instead of raising them. A man with an investment in stock of $10,000, may make sales of $25,000, a year, we will say, without advertising and without sales assistance. If he spends one or two thousand dollars for an additional clerk and for good advertising, he may be able to increase his annual sales to $40,000, Instead of a stock turnover of two and one-half times he has a four times turnover of his stock investment. When he does this, he can afford to take a smaller profit on each dollar's worth of goods sold.

Another saving is in expense. Every article sold must bear a certain charge for the expenses of running the store—rent, labor, administration, etc.

Many of these expenses remain the same, regardless of considerable increases in the amount of sales; some of them increase with the sales, but not proportionately—advertising is such an expense. With the increased sales caused by effective intensive selling, each dollar taken in bears a decreased proportion to the total expense of doing business. Selling prices can be lowered to the extent of this saving. Because intensive selling means increased sales, the merchant is able to get minimum prices on his quantity purchases, and to pass on this saving to his customers.

The beneficial effect of intensive selling on retail prices is not a matter of theory. It has been experienced by every consumer. The buying public does not look for bargains in the sleepy store on a side-street, unadvertised, where the occasional customer must rummage thru an ill-displayed stock to find what he wants. To get minimum prices he patronizes the big, busy, well-advertised store, manned by a sufficient staff of efficient salespeople to make the process of buying as quick and as economical as possible.

17. *Effect of the manufacturer's activities.*—Consumers profit from the manufacturer's intensive selling in much the same way as they profit from the advertising and effective salesmanship of the merchant. Good advertising and good selling by a manufacturer tend to keep prices down. They result in increased sales, and increased sales make possible the economies of a large-scale production, lowered

costs by reason of increased purchases of raw material, better methods made possible by the employment of expert operatives and supervisors and the use of labor-saving machinery.

18. *Intensive selling reduces the unit cost to sell.*—The most important result of the manufacturer's intensive selling methods is a reduction of the unit cost to sell. As an illustration of the effect of active seeking for business, consider advertising alone. Every article must bear a proportion of the cost to sell. If the total selling expense is high and the sales small, the price must be fixed accordingly; but if thru an expenditure for advertising the sales can be greatly increased, the proportion between selling expenses and sales may be so changed that the price can be decreased. Suppose, without advertising, a manufacturer can sell 10,000 units of his product at a selling cost of $5,000. Each article sold must bear a selling expense of fifty cents. Suppose, now, he adds an expense of $2,500 for advertising, and as a result sells 20,000 units. His total selling cost is increased to $7,500, but the *unit selling cost* is only thirty-seven and one-half cents. Here is the real economy of advertising and it usually goes hand in hand with a lessened unit charge for overhead expenses.

19. *Who pays for the advertising?*—These are not mere theoretical savings effected thru advertising and large-scale personal salesmanship. Business history is full of instances of nationally known manufacturers, who, in periods of generally rising prices, have

been able to retard the advancing prices of their own products because they had established markets of sufficient size and stability to enable them to effect economies in manufacturing and in selling. Good advertising and effective personal selling do not really *cost* anything. They must be paid for, but they are not an unproductive burden on any one. To ask "Who pays for the advertising?" is like asking "Who pays the rent of the store?" or "Who pays the salary of the clerk behind the counter?" They are all selling expenses which are absorbed in the business, which are required by competition and which often permit lower prices to the consumer than would be possible without them.

20. *The socialist's point of view.*—Another type of criticism of selling expense involves the charge that all competitive selling is an economic waste—that it is a tax on society. It is charged that, altho an individual article may not have its price increased thru advertising and intensive selling, when two or ten or a thousand competing articles are in the field and when they are pushed by strongly competitive advertising and salesmanship, the cost of selling each one is necessarily more than it would be if this strenuous competition did not exist. The critic who inveighs in this way against all competitive selling is voicing the theory of socialism. He would deny to the individual the right to enter and to conduct any business that attracted him. He would substitute the absolute authority of the state for the inclinations of

the individual. Communism—governmental monopoly in each line of business—would take the place of capitalism and private initiative based on the natural desire for legitimate material profits.

21. *Competition and civilization.*—This is not the place to discuss communism *versus* capitalism—state monopoly *versus* private initiative and competitive selling. We can only suggest the majority opinion that the present method of doing business is necessary if people are to continue to use their brains to produce better, cheaper, more convenient goods of all kinds. Inventive genius is best fostered by holding out to the inventor the opportunity to get such reward as he can induce the public to give him in the open market. If it were not for competition and the necessity of adopting intensive selling measures in order that the inventor could get his financial reward, the public might be very slow in finding out about a new product. A man who has something to sell that he thinks will satisfy a want of society—something that will make life easier or happier or better—can not hide his goods if he wants to get his reward. Competition is an educator; it carries the message of new goods, new methods, new conveniences, new luxuries to the farthermost points of the earth, and it does it quickly, effectively and economically. It encourages the spirit of cooperative individualism which has brought the world from savagery to the heights of civilization. With all its inescapable inequalities, competition has lifted mankind out of the

darkness of barbarism and has enabled the individual to aspire to those achievements which have been the mile-stones in the progress of the race.

22. *Facing the facts.*—We are living under a system of competition and capitalism. The fact that it continues, proves that most people want it to continue. It is a system that permits a man to select his own business—a system that does not by law limit the number of people who engage in any given industry, and which must, therefore, permit any one in any business to solicit trade in any way consistent with honesty and good taste. Admit the legitimacy of the system, and we must refrain from criticizing any honest attempt to compete for business under the system. No manufacturer or dealer, for fear that intensive selling may cast a burden on society, is called upon to discontinue his advertising, draw in his salesmen, tear down his sign, board up his windows and, with his goods carefully out of sight for fear they might encourage buying, do business with intending customers thru a hole in the wall!

23. *Conclusion.*—Dishonest competitive methods must go, and practices that are repugnant to public morals and public taste must be eliminated. The competitive system will be strengthened when all manufacturers and merchants unite to purge their methods of all practices which bring selling into disrepute and which, thru carelessness or design, tend to increase the burden on the consumer. No manufacturer or dealer who uses the great tools of advertising and of personal salesmanship in the thousands of ways that good sense, good taste and good business suggest, with an honest desire to deal fairly with competitors and with the public and with intent to reduce selling costs to a minimum, need apologize for his activities or fear that he is doing anything save that which is for the best interests of society.

REVIEW

What changes were made in manufacturing costs by the rise of the factory system?

What has brought about high selling costs? How may these costs be reduced?

Discuss the charges brought against the competitive system of selling. How would you meet them?

What effect should intensive selling have on retail prices? How does the consumer profit by it?

What effect does advertising have on selling price?

Criticize the socialist's view toward competition. What is your own view regarding it?

Note: Numerous questions of business practice and procedure are discussed in detail in the Modern Business Reports. The current list will show those which are especially related to this volume. Among them may be mentioned:

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60 Laying Out a Plan of Investigation to Increase the Sales Efficiency of Department Store Employes
61 Manufacturers' Aids to Retailers in Marketing Goods
72 Mail Campaigns for Retail Stores
74 Retail Delivery Costs and Methods
81 Buying Systems for general Mail-Order Houses
83 Service and Display as Aids in Retail Selling
88 The Organization of the Merchandise Office in a Department Store

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